NOVA SCOTIA POWER

# Notice of Annual Meeting of Common Shareholders and Management Information Circular

February 13, 1995

NOVA SCOTIA POWER

## NOTICE OF ANNUAL MEETING

The Annual Meeting of the Shareholders of Nova Scotia Power Incorporated will be held at the World Trade and Convention Centre, 1800 Argyle Street, Halifax, Nova Scotia on Thursday, April 20, 1995 at 11:00 a.m. for the purposes of:

1. Receiving the Statements of Earnings and Retained Earnings for the year ended December 31, 1994; the Balance Sheet as at December 31, 1994; and the Statement of Changes in Cash Position for the year ended December 31, 1994; together with the Management and Auditor's reports:

2. Electing Directors to serve for the ensuing year;

3. Appointing Auditors;

4. Authorizing the Directors to fix the remuneration of the Auditors;

5. Considering and, if thought fit, approving an amendment to the Articles of Association to permit Directors, upon reaching age 70, to continue to hold office until the next Annual Meeting; and

6. Transacting such other business as may properly come before the Meeting.

Shareholders of record as of the close of business Monday, March 6, 1995 are entitled to vote at and participate in the business of the Meeting.

By Order of the Board of Directors,

Richard J. Smith
Secretary and General Counsel

Halifax, Nova Scotia
February 10, 1995

It is important that your shares be represented at the above meeting. Shareholders are encouraged to return their proxies as soon as possible in the postage-paid and pre-addressed envelope provided. Proxies must be filed with Montreal Trust Company of Canada at 1690 Hollis Street, Halifax, NS, B3J 9Z9 prior to the close of business on Tuesday, April 18, 1995.

Should you have any questions or comments, you may contact Nova Scotia Power by writing to the Secretary and General Counsel, Nova Scotia Power, P.O. Box 910, Halifax, NS B3J 2W5 or by calling 1-800-358-1995 from anywhere in North America or 428-6060 within the Halifax-Dartmouth area.

The World Trade and Convention Centre is wheelchair accessible through the Argyle Street entrance. Sign language interpretation will be provided during the meeting.

NOVA SCOTIA POWER

**MANAGEMENT INFORMATION CIRCULAR**
Information as of February 13, 1995

## SOLICITATION OF PROXIES

**This Management Information Circular is furnished in connection with the solicitation of proxies by management of Nova Scotia Power Incorporated ("Nova Scotia Power") for use at the Annual Meeting (the "Meeting") of common shareholders (the "Shareholders") of Nova Scotia Power to be held on Thursday, April 20, 1995 at the place and for the purposes set forth in the Notice of Annual Meeting accompanying this Management Information Circular.** Enclosed with this Management Information Circular is a Form of Proxy. The solicitation will be primarily by mail. Proxies may also be solicited personally, by telephone or facsimile by Directors, Officers, other regular employees, or agents of Nova Scotia Power. The cost of this solicitation will be borne by Nova Scotia Power.

## APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy, Joseph A.F. Macdonald, Q.C., and Louis R. Comeau are the Chairman of the Board and the President and Chief Executive Officer, respectively, and are Directors of Nova Scotia Power. Richard J. Smith is Secretary and General Counsel of Nova Scotia Power. **Shareholders may appoint any other person, who need not be a shareholder, to represent them at the Meeting by inserting that person's name in the space provided on the accompanying Proxy or by completing another form of proxy.**

In order to be valid, a Proxy must be received prior to the close of business on Tuesday, April 18, 1995. A postage-paid, pre-addressed envelope is provided for this purpose.

Shareholders may revoke their proxy by providing written notification to the Secretary and General Counsel, 18th Floor, Barrington Tower, Scotia Square, P.O. Box 910, Halifax, Nova Scotia B3J 2W5, not later than the last business day preceding the day of the Meeting or any adjournment thereof or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof or in any other manner permitted by law. If a proxy is revoked and not replaced by the close of business on Tuesday, April 18, 1995, the shares represented by such revoked proxy may only be voted in person by the Shareholder at the Meeting.

Completion of the accompanying Form of Proxy gives discretionary authority to the proxyholder in respect of amendments to matters identified in the Notice of Annual Meeting and other matters that may properly come before the Meeting or any adjournment thereof. As of February 13, 1995, management of Nova Scotia Power knows of no such amendments or other matters to be presented for action at the Meeting.

The persons named in the enclosed Form of Proxy will vote the shares represented by the Proxy in accordance with the directions of the Shareholder where a choice is provided on the Form of Proxy. **In the absence of a direction, the shares will be voted "For" the:**

- **election of Directors;**
- **appointment of Auditors;**
- **authorization of the Directors to fix the remuneration of the Auditors; and**
- **amendment to the Articles of Association relating to the retirement of Directors.**

The persons named in the enclosed Form of Proxy will vote in accordance with their best judgement if any other matters are properly brought before the Meeting.

## RECORD DATE AND VOTING

Only persons who are Shareholders of record at the close of business on Monday, March 6, 1995 (the "Record Date") will be entitled to vote either in person or by proxy at the Meeting. Shareholders are entitled to one vote for each common share registered in their name on the Record Date.

To the knowledge of the Directors and Officers of Nova Scotia Power as of February 13, 1995, no person owned or exercised control or direction over more than 10 percent of the outstanding common shares of Nova Scotia Power and the only outstanding voting shares were 85,421,960 common shares.

Resolutions placed before the Meeting will require for approval a simple majority of the votes cast except for the proposed amendment to the Articles of Association which will require for approval a majority of not less than three-fourths of the shareholders present in person or by proxy at the Meeting.

Under present policy, the votes by proxy are tabulated by Nova Scotia Power's Registrar and Transfer Agent, Montreal Trust, for use at the Annual Meeting. Shareholder proxies are referred to Nova Scotia Power by Montreal Trust only when the proxy includes comments or questions intended for management. In circumstances which management believe to be of critical importance to Nova Scotia Power, proxies will be referred to management to facilitate shareholder communications respecting the particular issue.

## RESTRICTIONS ON SHARE OWNERSHIP AND VOTING

Ownership of Nova Scotia Power's voting shares is restricted. Direct or indirect holdings of a shareholder may not exceed 15 percent of outstanding voting shares. Holdings of shareholders who are not residents of Canada may not exceed 25 percent of outstanding voting shares. Holdings by way of security only are exempt from these restrictions.

Nova Scotia Power may enforce these restrictions by limiting the rights of a non-complying shareholder or shareholders including voting rights, dividend rights and transfer rights. Nova Scotia Power may require shareholders to furnish a statutory declaration to verify holdings and/or residency, in order to ensure compliance with these restrictions.

## MATTERS TO BE ACTED UPON

### ELECTION OF DIRECTORS:

*General*

The Nominating Committee is comprised of three Directors none of whom may be employed by Nova Scotia Power. It is responsible for providing a list of nominees for election as Directors and ensuring that such nominees are, in the reasonable opinion of the Committee, individuals who have the ability to contribute and devote the necessary time to the Board of Directors.

During the past year the Directors requested that the Nominating Committee review a number of issues relating to Board procedures and corporate governance. The Committee's review recommended that the Board adopt a number of new procedures to further enhance the ability of Directors to carry out their duties and to ensure an orderly rotation of Board members without interfering with the operation of the Board. The Board of Directors adopted Committee recommendations including the following:

- The Nominating Committee be renamed as the Nominating and Corporate Governance Committee.
- In addition to its previous mandate, responsibilities of the Committee will include reporting to the Board on matters relating to corporate governance, and issues associated with performance of Directors, Board composition, and conflict of interest.

- That 12 Directors be elected at the 1995 Annual Meeting.
- Directors who are not employees of Nova Scotia Power serve on the Board for no more than ten years.
- A Director who reaches the age of 70 shall not be eligible for re-election at the next Annual Meeting.

No more than two Directors may be current or former Officers or employees of Nova Scotia Power or its predecessors. Mr. Louis R. Comeau, President and Chief Executive Officer, is the only Officer on the Board of Directors. The Chairman of the Board must be chosen from the non-Executive Directors.

*Persons Proposed for Nomination as Directors*

The following nominees, with the exception of George A. Caines, Q.C. and R. Irene d'Entremont, are currently Directors of Nova Scotia Power. All nominees have indicated their willingness to serve as a Director. Each Director elected at the Meeting will hold office until the next annual meeting of shareholders or until a successor is elected or appointed.

**Unless Shareholders specify that Proxies not be voted relating to the election of Directors, the persons named in the enclosed Form of Proxy intend to vote "For" the 12 nominees to the Board whose names are listed.**

The following table of nominees sets out the present principal occupation of each nominee, positions held with Nova Scotia Power, if any, and the date on which each nominee first became a Director of Nova Scotia Power. The table also shows the number of voting securities of Nova Scotia Power that each nominee beneficially owns, directly or indirectly, or exercises control or direction over, as of February 13, 1995.

| Name, Municipality of Residence, and Principal Occupation | Director Since | Voting Shares[4] |
|---|---|---|
| George A. Caines, Q.C.<br>Halifax, Nova Scotia<br>Partner<br>Stewart McKelvey Stirling Scales<br>(barristers and solicitors) | - | 2,000 |
| Louis R. Comeau<br>Halifax, Nova Scotia<br>President and Chief Executive Officer<br>Nova Scotia Power Incorporated | December 18, 1984 | 7,503 |
| Sir Graham Day [2]<br>Hantsport, Nova Scotia<br>Counsel to Stewart McKelvey Stirling Scales<br>(barristers and solicitors) | April 6, 1992 | 2,973 |
| Marc de Logeres [1]<br>New York, New York<br>Consultant<br>Zanett Capital Inc.<br>(securities) | July 24, 1992 | 100 |

| Name, Municipality of Residence, and Principal Occupation | Director Since | Voting Shares[4] |
|---|---|---|
| R. Irene d'Entremont<br>Yarmouth, Nova Scotia<br>President<br>M.I.T. Electronics Inc.<br>(Marine Industry Products) | - | - |
| Thomas R. Hall [1]<br>Port Hastings, Nova Scotia<br>Consultant<br>Stora Forest Industries Limited<br>(pulp and paper products) | April 6, 1992 | 1,082 |
| M. Edward MacNeil [2] [3]<br>Sydney, Nova Scotia<br>Retired | April 6, 1992 | 2,500 |
| Derek Oland [1] [3]<br>Halifax, Nova Scotia<br>President and Chief Executive Officer<br>Moosehead Breweries Limited<br>(brewers) | April 6, 1992 | 106 |
| Dr. Elizabeth Parr-Johnston [2]<br>Halifax, Nova Scotia<br>President and Vice-Chancellor<br>Mount Saint Vincent University | April 6, 1992 | 1,000 |
| Kenneth C. Rowe [3]<br>Halifax, Nova Scotia<br>Chairman, President and Chief Executive Officer<br>IMP Group Limited<br>(aerospace, aviation, and marine industries) | April 6, 1992 | 5,000 |
| Rosemary Scanlon [1]<br>New York, New York<br>State Deputy Comptroller<br>City of New York | April 6, 1992 | 300 |
| Paul D. Sobey [1]<br>Stellarton, Nova Scotia<br>Chairman and Chief Executive Officer<br>Atlantic Shopping Centres Limited<br>(real estate) | April 6, 1992 | 5,675 |

Notes:

(1) Audit Committee Member
(2) Management Resources and Compensation Committee Member
(3) Nominating and Corporate Governance Committee Member
(4) The information as to shares has been furnished by the respective nominees

During the 1994 fiscal year, 24 Board and Committee Meetings were held with an average attendance of 97 percent by the Directors.

APPOINTMENT OF AUDITORS:

**The persons named in the enclosed Form of Proxy intend to vote "For" the re-appointment of Ernst & Young as auditors of Nova Scotia Power to hold office until the close of the next Annual Meeting of Shareholders, unless a Shareholder specifies their shares be withheld from voting.**

Ernst & Young were first appointed auditors of Nova Scotia Power in 1991.

AUDITORS' REMUNERATION:

**The persons named in the enclosed Form of Proxy intend to vote "For" the authorization of Directors to set the auditors' remuneration, unless a Shareholder specifies their shares be voted "Against" such a matter.**

ARTICLES OF ASSOCIATION AMENDMENT:

The Articles of Association currently provide that a Director shall vacate office upon reaching age 70. To ensure continuity of the Board, the Directors believe it is appropriate to permit a Director, after attaining age 70, to continue in office until the next Annual Meeting.

Shareholders will be asked to consider and, if deemed appropriate, pass the following resolution:

*WHEREAS Article 91(e) now provides that Directors retire at age 70;*

*AND WHEREAS it is desirable for retirements due to age to coincide with Annual Meetings of Shareholders;*

*BE IT RESOLVED THAT:*

1. *Article 91(e) of Nova Scotia Power's Articles of Association, which requires that Directors retire at age 70, be deleted*
2. *Article 123(c)(ii), which relates to the nominees for membership on the Board of Directors, as it presently reads:*

   *"(ii) Individuals who in the reasonable opinion of the Nominating Committee:*
   *(A) are not affiliated persons; and*
   *(B) are not current employees of Her Majesty in Right of the Province of Nova Scotia, or former employees of any corporation or company controlled by Her Majesty in Right of the Province of Nova Scotia."*

   *be amended to provide for an individual to be included in the list of nominees for election at an Annual Meeting provided that the individual has not attained 70 years of age. Article 123(c)(ii) to read:*

   *"(ii) Individuals who in the reasonable opinion of the Nominating Committee:*
   *(A) are not affiliated persons;*
   *(B) are not current employees of Her Majesty in Right of the Province of Nova Scotia, or former employees of any corporation or company controlled by Her Majesty in Right of the Province of Nova Scotia; and*
   *(C) have not reached 70 years of age."*

**The persons named in the enclosed Form of Proxy intend to vote "For" the proposed amendment to the Articles of Association, unless a Shareholder specifies their shares be voted "Against" such amendment.**

## COMPENSATION OF DIRECTORS

Each Director who is neither an Officer nor the Chairman of the Board, is paid a retainer of $12,000 per year, a fee of $750 for each Board, Committee and Shareholders' Meeting attended and $750 if a day's travel time is required to attend such meetings. The Chair of each Committee of the Board receives an additional retainer of $2,500 per year. The Chairman of the Board receives a retainer of $50,000 per year and does not receive any additional remuneration for attendance at meetings or as Chairman of any Committee. All Directors are reimbursed for expenses incurred for attendance at Board, Committee, and Shareholders' Meetings and on official Nova Scotia Power business.

## MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The Management Resources and Compensation Committee (the "MRC Committee") reviews compensation policies, benefits and other matters relating to senior management and monitors succession planning. It reviews the annual incentive plan for all Executive Officers, makes recommendations to the Board of Directors in respect of these matters and evaluates the performance of the President and Chief Executive Officer.

The MRC Committee also reviews issues associated with Directors' annual compensation.

Nova Scotia Power's overall compensation policy is designed to attract and retain competent employees and to optimize return on the investment of compensation dollars through improved productivity. Compensation for non-union employees, including Executive Officers, is based upon the application of a consistent system of position evaluations; the provision of salary ranges for positions which are designed to maintain fair and equitable relationships among positions within Nova Scotia Power; recognition of individual employee contributions to the achievement of desired corporate objectives; and establishment of salary ranges which are competitive with positions in comparable organizations as established by annual compensation surveys. Nova Scotia Power has determined that in order to be competitive, compensation should be at the median level of such organizations.

### COMPOSITION OF MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE:

The MRC Committee is comprised of three Directors none of whom are employed by Nova Scotia Power. This Committee is required to meet at least annually and met four times during the 1994 fiscal year which ended on December 31, 1994. The MRC Committee's recommendations are submitted to the Board of Directors for approval. Dr. Elizabeth Parr-Johnston, Sir Graham Day and Mr. M. Edward MacNeil served as members of this Committee during 1994.

## REPORT ON EXECUTIVE COMPENSATION

### REPORT OF THE MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE:

Nova Scotia Power's executive compensation policy has been developed on the general principle that compensation and benefits paid to Executive Officers should be based on the median of compensation levels paid for comparable positions in other publicly traded Canadian companies which have revenues similar to Nova Scotia Power, with particular emphasis on Atlantic-based companies and regulated utilities. Surveys of such comparable positions are conducted for the MRC Committee by an external compensation consultant.

Mr. Comeau was President and Chief Executive Officer of the former Nova Scotia Power Corporation for the period March 1, 1983 to August 10, 1992. His compensation during this period was less than was typically available to chief executive officers of other Canadian public utilities and continues to be below the median compensation paid to chief executive officers of comparable organizations. The Committee has determined that the compensation paid to Nova Scotia Power's President and Chief Executive Officer should be moved towards

the median level for comparable organizations. Details of the current compensation arrangements are set out under "Employment Contract - Chief Executive Officer" in this Management Information Circular.

Through participation in Nova Scotia Power's annual incentive plan, Mr. Comeau receives additional annual compensation based on the overall performance of Nova Scotia Power for the particular year and upon his success in meeting predetermined personal goals.

*Annual Incentive Plan*

In addition to base salary, Nova Scotia Power believes annual incentive plans are an integral part of a balanced compensation program. An annual incentive plan is intended to reward employees for the achievement of predetermined levels of performance in support of corporate objectives and for performance above and beyond the normal expectations for the position.

Independent compensation consultants have advised Nova Scotia Power that based on a survey of 16 investor-owned electric, gas and telephone utilities in Canada, all provide an annual incentive plan for their executives. A survey of 256 industrial organizations shows that 87% provide an annual incentive plan for executives.

Nova Scotia Power's Annual Incentive Plan for Executive Officers was approved in 1993 with performance targets based on corporate, divisional and personal results. The measures used to assess corporate performance are based on levels of customer service and financial results. Division targets relate to the operations of areas of responsibility and include measures of operational efficiency and effectiveness and/or expense control. Personal targets may change from year to year and are often related to the completion of projects or initiatives considered to be of importance to Nova Scotia Power. Awards are made after the completion of a formal review process measuring actual performance against the targeted performance. No awards are made if specified targets are not met.

*Executive Officers' Long-Term Incentive Plan*

At the 1994 Annual Meeting, Shareholders approved a stock option plan (the "Plan") as a long-term incentive plan for Executive Officers. The Plan is designed to attract and retain highly qualified Executive Officers; to provide an opportunity for Executive Officers to participate in Nova Scotia Power's future growth; and to further Nova Scotia Power's long-term success and profitability. The first options were granted under the Plan in 1994.

The Plan is administered by the MRC Committee. Participation in the Plan is entirely voluntary and does not affect an Executive Officer's employment in any manner.

The MRC Committee is responsible for designating which Executive Officers will be eligible to participate in the Plan. Options are granted for a maximum term of ten years and are exercisable as determined by the MRC Committee. The holder of an option has no right as a Shareholder until the option is exercised and shares have been issued. The maximum number of Nova Scotia Power's common shares which may be reserved for issuance under the Plan cannot exceed two percent (2%) of the issued and outstanding common shares at any time. The maximum number of such shares optioned to any one Executive Officer cannot exceed one percent (1%) of the issued and outstanding common shares on the date the option is granted.

The issue price of all Plan options is the closing market price of Nova Scotia Power's Common Shares on The Toronto Stock Exchange on the last business day on which such shares were traded immediately preceding the day on which the option was granted.

Plan options are non-assignable. Unless the term of an option has expired, options may be exercised by the estate of an optionee within six months from the date of death.

The number of optioned shares will be appropriately adjusted in the event of any restructuring of Nova Scotia Power's capital stock.

Submitted by the MRC Committee of the Board of Directors:

Dr. Elizabeth Parr-Johnston, Chair
Sir Graham Day
Mr. M. Edward MacNeil

## COMPENSATION OF NAMED EXECUTIVE OFFICERS

The Summary Compensation Table sets out compensation information for Nova Scotia Power's fiscal year ended December 31, 1994 for the President and Chief Executive Officer and the four other most highly compensated Executive Officers, based on 1994 earnings. The information includes:

- annual salary earned;
- incentive bonuses earned; and
- all other compensation.

### SUMMARY COMPENSATION TABLE

| | | Annual Compensation | | | Long-Term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Awards | | Payouts | |
| Name and Principal Position | Year[1] | Salary ($) | Bonus ($) | Other Annual Compensation ($) | Securities Under Options/ SARs Granted (#)[2] | Restricted Shares or Restricted Share Units ($) | LTIP Payouts ($) | All Other Compensation ($) |
| Louis R. Comeau<br>President and Chief Executive Officer | 1994<br>1993 | 165,621<br>157,212 | 43,890<br>40,640 | Nil<br>Nil | 20,000<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |
| L. Robert Shaw<br>Vice-President Marketing and Public Affairs | 1994<br>1993[3] | 141,528<br>46,668 | 21,441<br>- | Nil<br>Nil | 10,000<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |
| Gary K. Oickle<br>Vice-President and Chief Financial Officer | 1994<br>1993 | 136,848<br>127,698 | 19,775<br>19,601 | Nil<br>Nil | 10,000<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |
| Terrance F. MacDonald<br>Vice-President Engineering and Environment | 1994<br>1993 | 136,848<br>124,518 | 19,500<br>14,823 | Nil<br>Nil | 10,000<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |
| Philip N. Sidebottom<br>Vice-President Power Production | 1994<br>1993[4] | 128,640<br>107,691 | 17,559<br>- | Nil<br>Nil | 10,000<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |

(1) Prior to July 1992 Nova Scotia Power was a crown corporation of the Province of Nova Scotia. Disclosure of executive compensation for years prior to 1993 is therefore not set out in the above table.

(2) Plan implemented in 1994.

(3) Mr. L. Robert Shaw joined Nova Scotia Power as Vice-President Marketing and Public Affairs on August 30, 1993 and therefore was not eligible to participate in the Executive Officers' Annual Incentive Plan for performance during 1993. The 1993 compensation shown for Mr. Shaw is the total of compensation received from Nova Scotia Power for the period August 30, 1993 to December 31, 1993.

(4) Mr. Philip N. Sidebottom became Vice-President Power Production on October 1, 1993. Prior to this he was responsible for the operations of the Thermal Production Division of Nova Scotia Power and therefore was not eligible to participate in the Executive Officers' Annual Incentive Plan for performance during 1993. The 1993 compensation shown for Mr. Sidebottom is the total of compensation received from Nova Scotia Power for that fiscal year.

## OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FISCAL YEAR

The table below shows information regarding grants of stock options made to the Named Executive Officers during the fiscal year ended December 31, 1994. Details of the Plan can be found under "Report on Executive Compensation - Executive Officers' Long-Term Incentive Plan" in this Management Information Circular.

| Name | Securities Under Options Granted (#) | % of Total Options Granted to Employees in 1994 | Exercise or Base Price $/Common Share | Market Value of Securities Underlying Options on the Date of Grant $/Common Share | Expiration Date |
|---|---|---|---|---|---|
| Louis R. Comeau | 20,000 | 22.22 | 11.25 | 11.25 | July 5, 2004 |
| L. Robert Shaw | 10,000 | 11.11 | 11.25 | 11.25 | July 5, 2004 |
| Gary K. Oickle | 10,000 | 11.11 | 11.25 | 11.25 | July 5, 2004 |
| Terrance F. MacDonald | 10,000 | 11.11 | 11.25 | 11.25 | July 5, 2004 |
| Philip N. Sidebottom | 10,000 | 11.11 | 11.25 | 11.25 | July 5, 2004 |

## AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table summarizes for each of the Named Executive Officers the number of common shares of Nova Scotia Power acquired pursuant to the exercises of stock options during the fiscal year ended December 31, 1994, if any, the aggregate value realized upon exercise, if any, and the number of common shares of Nova Scotia Power covered by unexercised options under the Executive Stock Option Plan as at December 31, 1994. Value realized upon exercise, if any, is the difference between the fair market value of the common shares on the exercise date and the exercise or base price of the option. Value of unexercised in-the-money options at fiscal year-end, if any, is the difference between the exercise or base price of the options and the fair market value of the common shares on December 31, 1994, which was $11.13.

Pursuant to the terms of the Executive Stock Option Plan, no options currently granted to Executive Officers may be exercised before July 6, 1995.

| Name (a) | Securities Acquired on Exercise (#) (b) | Aggregate Value Realized ($) (c) | Unexercised Options at December 31, 1994 (#) (d) | | Value of Unexercised in-the-Money Options at December 31, 1994 ($) (e) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Louis R. Comeau | Nil | Nil | Nil | 20,000 | Nil | Nil |
| L. Robert Shaw | Nil | Nil | Nil | 10,000 | Nil | Nil |
| Gary K. Oickle | Nil | Nil | Nil | 10,000 | Nil | Nil |
| Terrance F. MacDonald | Nil | Nil | Nil | 10,000 | Nil | Nil |
| Philip N. Sidebottom | Nil | Nil | Nil | 10,000 | Nil | Nil |

## PENSION PLAN TABLE

The Pension Plan Table below sets out the estimated annual benefits payable to Executive Officers upon retirement at age 60 for the various salary/years of service combinations as shown.

| Remuneration ($) | Years of Credited Service at Normal Retirement Age of 60 15 | 20 | 25 | 30 | 35 |
|---|---|---|---|---|---|
| 100,000 | 30,000 | 40,000 | 50,000 | 60,000 | 70,000 |
| 125,000 | 37,500 | 50,000 | 62,500 | 75,000 | 87,500 |
| 150,000 | 45,000 | 60,000 | 75,000 | 90,000 | 105,000 |
| 175,000 | 52,500 | 70,000 | 87,500 | 105,000 | 122,500 |
| 200,000 | 60,000 | 80,000 | 100,000 | 120,000 | 140,000 |
| 225,000 | 67,500 | 90,000 | 112,500 | 135,000 | 157,500 |

Executive Officers are members of Nova Scotia Power's regular pension plan. Contributions to the pension plan for 1994 were made by members at a rate of seven percent of base salary. These contributions are matched by Nova Scotia Power. Pension benefits paid under this pension plan are based on two percent (2%) of the average of the five (5) highest years' base salary, excluding bonuses, for each year of credited service. The pension is payable upon the earlier of:

(i) age 60; and
(ii) age 55, provided that age and years of service add to at least 85.

Spousal benefits are paid on the death of a member at the rate of 60 percent of regular pension benefits. The pension plan is indexed to the consumer price index to a maximum of six percent (6%) per annum. Upon reaching age 65, pension benefits under the pension plan are reduced to reflect commencement of payments under the Canada Pension Plan (CPP).

While the major portion of the above pension will be provided by the pension plan, a portion of the pension earned after January 1, 1992 will be provided by direct payments from Nova Scotia Power due to Revenue Canada's limitations on the maximum pension benefit which may be paid under the pension plan.

In addition to the pension plan, upon retirement all regular employees, including the Named Executive Officers, are entitled to a retirement award equal to one week's pay for each year of service to a maximum of 26 weeks.

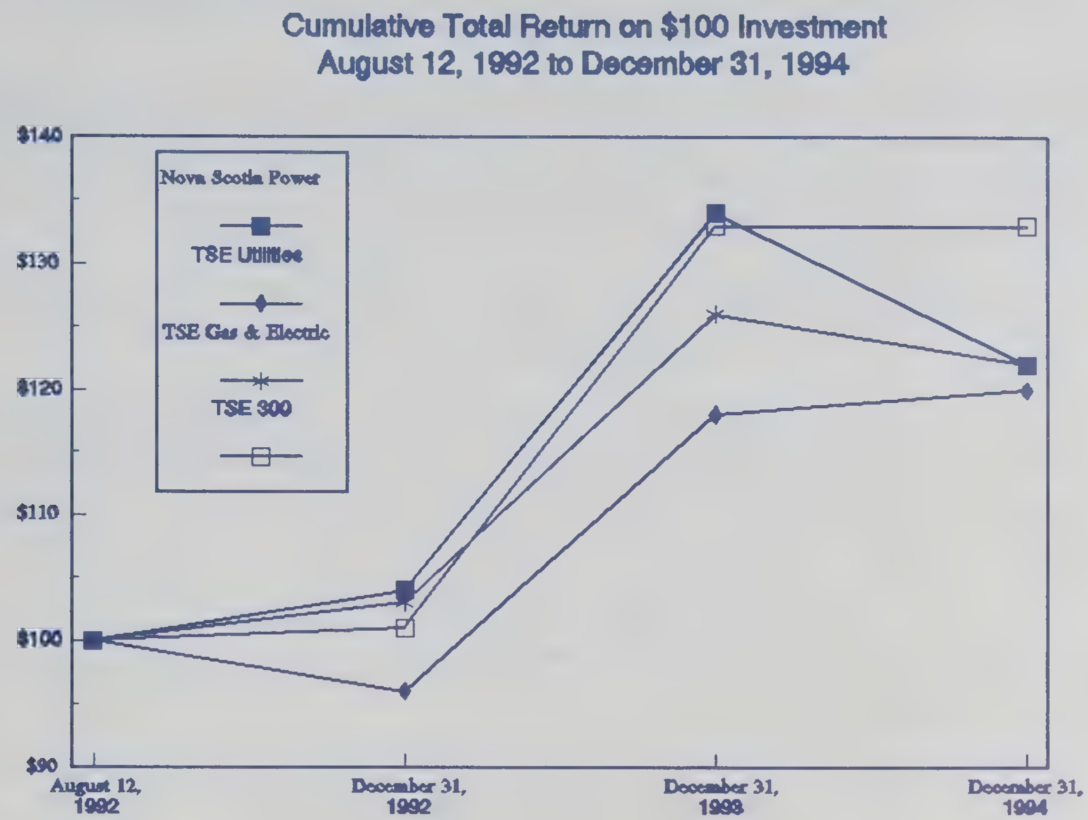
For purposes of computing pension benefits, the estimated full years of actual credited service in the pension plan at the assumed normal retirement date for the Named Executive Officers is as follows:

| Named Executive Officer | Years in Plan at Age 60 Retirement |
|---|---|
| Louis R. Comeau | 17.92 |
| L. Robert Shaw | 8.58 |
| Gary K. Oickle | 20.91 |
| Terrance F. MacDonald | 33.66 |
| Philip N. Sidebottom | 25.63 |

Mr. Comeau is a member of the Nova Scotia Power regular Pension Plan and pursuant to the terms of his Employment Contract also has supplementary pension entitlements which, when added to the regular pension, will provide for pension benefits of $79,767 per annum at age 55. The pension benefits will be administered and subject to all the terms and conditions as if fully provided pursuant to the regular Pension Plan.

## PERFORMANCE GRAPH

The performance graph below compares Nova Scotia Power's cumulative total shareholder return (assuming an investment of $100 and reinvestment of dividends) for its shares with that of the TSE 300 Index, the TSE Utilities sub-index, and the TSE Gas and Electric sub-index. Nova Scotia Power's common shares commenced trading on August 12, 1992.




| | August 12, 1992 | December 31, 1992 | December 31, 1993 | December 31, 1994 |
|---|---|---|---|---|
| Nova Scotia Power | $100 | $104 | $134 | $122 |
| TSE Utilities | $100 | $ 96 | $118 | $120 |
| TSE Gas & Electric | $100 | $103 | $126 | $122 |
| TSE 300 | $100 | $101 | $133 | $133 |

## EMPLOYMENT CONTRACT - CHIEF EXECUTIVE OFFICER

Pursuant to the terms and conditions of an Employment Contract with Nova Scotia Power, the President and Chief Executive Officer is employed for a term ending upon the adjournment of Nova Scotia Power's 1996 Annual Meeting of Shareholders. During 1994, this Contract provided an annual base salary of $160,000 to March 31; $167,500 to March 31, 1995; and $175,000 for the balance of the term.

The Contract also entitles him to the same perquisites provided to other Executive Officers and the following additional benefits:

(a) An automobile and operating costs of same.
(b) Payment of annual dues for three social/recreational clubs.

The Contract terminates upon death or incapacity and may be terminated at any time for cause or any other reason. If terminated for a reason other than cause, Nova Scotia Power will pay Mr. Comeau the balance of the salary which would have been paid to him from the date of termination to the end of the term and will permit him continued participation in all employee benefit plans for such period in full and final settlement of any claim for early termination. The Contract also provides that Mr. Comeau will hold all company trade secrets or other confidential information in confidence. Details of Mr. Comeau's pension entitlement can be found under "Pension Plan Table" in this Management Information Circular.

## INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at February 13, 1995, the only indebtedness of Directors, Executive Officers (including the Named Executive Officers) and Senior Officers related to loans which arose pursuant to the Employee Initial Share Purchase Plan at the time of the initial public offering of Nova Scotia Power's common shares in August 1992. Employees had the option at that time of borrowing up to $5,000 from Nova Scotia Power for the purchase of shares repayable over a maximum of 36 months.

## MATERIAL TRANSACTIONS

During 1994, insiders of Nova Scotia Power, including Directors, Executive Officers, proposed nominee Directors or their associates or corporations they controlled, did not have any material interest, direct or indirect, in any transaction or in any proposed transaction that has materially affected or will materially affect Nova Scotia Power.

## MANAGEMENT CONTRACTS

There are no functions of management which are performed by a person or company other than the Directors, senior officers or employees of Nova Scotia Power.

## DIRECTORS' AND OFFICERS' INSURANCE

Nova Scotia Power maintains Directors' and Officers' liability insurance. This insurance coverage reimburses Nova Scotia Power for payments made to its Directors and Officers pursuant to corporate indemnity provisions. Individual Directors and Officers will be reimbursed by the insurance coverage for losses arising during the performance of their duties for which they are not indemnified by Nova Scotia Power. The policy limit is $20,000,000 per occurrence per year subject to a deductible of $50,000 per occurrence with respect to the corporate indemnity provisions and no deductible with respect to the individual reimbursement provisions. The current premium in respect of the Directors' and Officers' liability insurance is approximately $57,000 per annum. The insurance policy does not distinguish between the Directors and Officers as separate groups.

## NOVA SCOTIA POWER COMMITTEES OF THE BOARD OF DIRECTORS

In addition to the Nominating and Corporate Governance Committee and the Management Resources and Compensation Committee referred to previously, Nova Scotia Power also has an Audit Committee, the details of which are set out below. Nova Scotia Power's Articles of Association make provision for an Executive Committee of the Board of Directors, however the Directors have determined that it is not appropriate to constitute such a Committee at this time choosing to operate as a full Board in order to help ensure that all Directors are conversant with issues relating to Nova Scotia Power.

AUDIT COMMITTEE:

The Audit Committee of the Board of Directors is responsible for ensuring that appropriate internal control procedures are in place relating to the internal and external audit of Nova Scotia Power's accounts. The Audit Committee reviews investment issues and policies and also reviews and recommends to the Board of Directors for approval, documents such as the Annual Report, the Annual Information Form, and the Management Discussion and Analysis which contain Nova Scotia Power's audited financial statements, along with the unaudited Interim Reports to shareholders. The Audit Committee meets with the internal and external auditors of Nova Scotia Power to discuss Nova Scotia Power's annual financial statements, transactions of Nova Scotia Power, and to ensure that the internal control procedures established for Nova Scotia Power are effective.

The Audit Committee must be comprised of at least three Directors none of whom are employees of Nova Scotia Power. This Committee is currently comprised of five Directors.

## DIRECTORS' APPROVAL

The contents and the sending of this Management Information Circular have been approved by the Board of Directors of Nova Scotia Power.

Richard J. Smith
Secretary and General Counsel

Halifax, Nova Scotia
February 13, 1995

AR17

Nova Scotia Power Inc.

Minutes of the

# 1995 Annual Meeting of Common Shareholders of Nova Scotia Power Inc.

Held on Thursday, April 20, 1995
at Halifax, Nova Scotia

NOVA SCOTIA
POWER

## Minutes of the 1995 Annual Meeting of Shareholders of Nova Scotia Power Incorporated

The 1995 Annual Meeting of Shareholders of Nova Scotia Power Incorporated was held at 11:00 a.m. on Thursday, April 20, 1995 in the Port Royal Room of the World Trade and Convention Centre, Halifax, Nova Scotia.

### CHAIR AND SECRETARY

In accordance with the Company's Articles of Association, Mr. J.A.F. Macdonald, Q.C., Chair of the Board, presided as Chair of the Meeting and Mr. R.J. Smith, Secretary and General Counsel of the Company, acted as Secretary.

### SCRUTINEERS

With the consent of the Meeting, Mr. Andrew G. London and Ms. Heather A. Marshall of Montreal Trust Company of Canada, the Company's Registrar and Transfer Agent, were appointed Scrutineers.

### QUORUM

The Chair stated that there was a quorum present at the Meeting based on the registration of shareholders at the Meeting and the proxies submitted.

### NOTICE OF MEETING

The Chair advised that the Notice of Meeting had been duly published and also forwarded by mail to all shareholders of record as of March 6, 1995. The Secretary read the Notice and the Chair declared the Meeting duly called and properly constituted for the transaction of business. He directed that a copy of the Notice of Meeting, together with proof of mailing, be kept with the record of the Meeting.

### MINUTES OF PREVIOUS MEETING

The Chair stated that Minutes of the shareholders' meeting held in Halifax on April 27, 1994, had been mailed to the shareholders. The Minutes recorded properly the proceedings of that meeting since no amendments thereto had been suggested.

### INTRODUCTION OF SPECIAL GUESTS

The Chair introduced a number of special guests including the 1995 Centennial Scholarship winners June Dipchand and Glen MacDonald from Dalhousie University; Ryan Boudreau from Mount Allison University; and Adair Fowler from Saint Mary's University. The Centennial Scholarships are awarded by the Company to engineering students studying at universities associated with the Technical University of Nova Scotia's engineering program.

The Chair also introduced the 1995 Equity Scholarship recipients Peggy Apostolides from Dalhousie University; Suzanne Musgrave from St. Francis Xavier University; Mekalai Kumanan from Mount Allison University; and Julie Bailey from Acadia University.

He then introduced the 1995 Employee Scholarship recipients Sunita Mathur, Cynthia Dacey, and Robert Todd from Dalhousie University and Charlotte MacCuish from University College of Cape Breton.

## AUDITORS' REPORT TO SHAREHOLDERS

The Chair advised that the Company's comparative financial statements for the period ended December 31, 1994, together with the Auditors' Report had been forwarded to the shareholders by mail. The Auditor's Report to shareholders was then read by the Secretary.

## FINANCIAL RESULTS - 1994

Mr. Gary K. Oickle, Vice-President and Chief Financial Officer, reviewed the financial performance of the Company for 1994. A summary of his review is set out below.

> *Your company's overall financial objective is to provide shareholder value which is consistent with other Canadian electric utilities. We have achieved this objective for 1994 while at the same time avoiding rate increases to our customers.*
>
> *As a regulated utility, we are entitled to a return on common equity between 11 1/2 to 12 percent. The actual return for 1994 was 11.9 percent - at the high end of the allowed range.*
>
> *Total revenue for the year was $715.6 million which comes almost exclusively from electricity sales. This is an increase from 1993's revenue of $709.1 million.*
>
> *After taking into account the costs of running the Company, we are able to report that net earnings applicable to common shares were $94 million; an increase of 2.7 percent over 1993's $91.5 million. As a result, the earnings per common share increased from $1.07 per share in 1993 to $1.10 per share in 1994. We were able to return $64.8 million in dividends to common shareholders.*
>
> *Operating expenses are 22 percent of revenue or $155 million. Interest is 21 percent or $152 million. Depreciation is 12 percent or $83 million and we pay 11 percent of revenue as dividends to common and preferred shareholders. By far the single largest use of revenue is the purchase of fuel and purchased power (34 percent of revenue or $247 million in 1994).*
>
> *Growth in the demand for electricity in North America during the 1990's has slowed considerably from the growth of the 1980's. Your company is no exception. The 1994 growth in demand for electricity was 0.8 percent over the demand in 1993. This compares to a 1.0 percent growth in 1993 as compared to 1992. We expect growth in sales volume for 1995 to be in the one to two percent range reflecting a slightly improving economic environment in Nova Scotia.*
>
> *During 1993 the Company implemented a Corporate Effectiveness Program to promote continuous improvement throughout the organization. This program, which reviews and redesigns business processes to achieve cost reductions and quality improvements, has enjoyed considerable success.*
>
> *The Company's ability to manage and control its costs over the years has allowed it to minimize rate increases. While the Consumer Price Index has increased 47 percent since 1983, and the average price of electricity in Canada has increased 63 percent, Nova Scotia Power has been able to contain rate increases to less than 19 percent during this same time.*
>
> *The Point Aconi Generating Station opened in 1994 and while the introduction of a new generating station typically means that utilities experience an increase in operating, interest, and depreciation expenses, your Company's financial performance and corporate effectiveness initiatives allowed us to achieve our financial targets.*

*When Nova Scotia Power privatized in 1992, both provincial and federal income taxes were refunded to minimize the impact on electric customers. Since that time the tax relief has been eliminated which will increase income tax expenses. For 1994 and future years the impact has been minimized through the use of capital cost allowance, the majority of which was created through the privatization process. Income taxes are a cost of doing business for an investor-owned electric utility and will not impact our ability to earn at the appropriate level of return for our shareholders.*

*Equity increased from approximately $974 million in 1993 to more than $1 billion in 1994 as a result of an increase in retained earnings of $29 million and a $3 million increase in common shares outstanding as a result of our Dividend Reinvestment Program.*

*One of the reasons why the Company was privatized was so that it could remove approximately $2.2 billion of debt from the Province of Nova Scotia's books by December 31, 1997. As at December 31, 1994, $1.5 billion of the $2.2 billion has been refinanced or provided for through sinking funds. We are presently one year ahead of our plan and intend to continue at this rate.*

*When the Company was a Crown utility the majority of our capital expenditures were financed by borrowing. During 1994 net capital expenditures totalled $95 million as compared to $126 million in 1993, and more than $250 million in 1992. We expect annual capital expenditures to be approximately $100 million over the next few years, all of which will be totally financed from operating cash flow. These capital expenditures will be directed towards the maintenance of the existing systems and creation of the necessary infrastructure to accommodate new customers.*

## Scrutineers' Report on Attendance

The Secretary read the Scrutineers' Report advising that there were present at the Meeting, in person or represented by proxy, 39,773,680 shares of the Company, which represents 33 percent of the shareholders and 46.5 percent of the shares.

The Chair directed that the Report be kept on file with the record of the Meeting.

## Business of Meeting

The Chair reminded the shareholders that the business of the Meeting was to:

- elect Directors to serve for the ensuing year;
- appoint auditors;
- authorize the Directors to fix the remuneration of auditors; and
- consider and, if thought fit, approve an amendment to the Articles of Association to permit Directors, upon reaching age 70, to continue to hold office until the next Annual Meeting.

He stated that each resolution placed before the Meeting is an ordinary resolution requiring for its approval a simple majority of the votes cast in person or by proxy with the exception of the final resolution which would require a three-quarters majority of the votes. He advised that the voting on the resolutions would be by ballot and requested that those shareholders who had not submitted a proxy complete a ballot.

### Election of Directors

It was moved by Mr. Robert Harrington and seconded by Mrs. Sandy Oickle, both Company shareholders, that:

*the following be elected as Directors of the Company for the ensuing year or until their successors are elected or appointed:*

*George A. Caines, Halifax, Nova Scotia;*
*Louis R. Comeau, Halifax, Nova Scotia;*
*Sir Graham Day, Hantsport, Nova Scotia;*
*Marc de Logeres, New York, New York;*
*R. Irene d'Entremont, Yarmouth, Nova Scotia;*
*Thomas R. Hall, Port Hastings, Nova Scotia;*
*M. Edward MacNeil, Sydney River, Nova Scotia;*
*Derek Oland, Halifax, Nova Scotia;*
*Dr. Elizabeth Parr-Johnston, Halifax, Nova Scotia;*
*Kenneth C. Rowe, Halifax, Nova Scotia;*
*Rosemary Scanlon, New York, New York; and*
*Paul D. Sobey, New Glasgow, Nova Scotia.*

**Appointment of Auditors**

It was then moved by Mr. Bill Wallace and seconded by Mr. Ross MacKay, both shareholders of the Company, that:

*Ernst & Young, Chartered Accountants, be and they are hereby appointed auditors of the Company to hold office until the close of the next annual meeting of shareholders or until their successors are appointed.*

**Authorization for Directors to fix Auditors' Remuneration**

It was then moved by Mr. John Power and seconded by Mr. Gary Cullen, both shareholders of the Company, that:

*the Directors of the Company be and they are hereby authorized to fix the remuneration of the auditors for the current year in such amounts as they may in their discretion determine.*

**Amendment to Articles of Association**

It was then moved by Mr. Gordon Keeling and seconded by Ms. Julia Landry, both shareholders of the Company, that:

*the resolution amending the Articles of Association, the text of which appears on page 6 of the Management Information Circular, be and is hereby approved.*

The Chair then requested that those shareholders, who had not already voted, submit their ballots.

## President's Address

The President and Chief Executive Officer, addressed the Meeting. Excerpts from his address are attached to these Minutes.

## Scrutineers' Report On Voting

The Secretary then read the Scrutineers' Report on voting, advising that the resolutions before the Meeting had been carried by more than the required majority vote. The Chair declared all of the motions carried.

## CHAIR'S REMARKS

The Chair addressed the Meeting acknowledging the efforts and contributions of the employees of the Company. He advised the shareholders that he is retiring from the Company's Board upon completion of the Meeting and that Mr. Derek Oland will succeed him as Chair of the Board.

## SHAREHOLDERS' QUESTIONS

The Chair concluded the formal business of the Meeting and opened the Meeting to questions from shareholders. Six individuals raised issues to which the Chair and the President and Chief Executive Officer replied.

## MEETING CONCLUDED

There being no further business, the Chair thanked those present for their attendance and declared the Meeting concluded.

| | |
|---|---|
| Joseph A.F. Macdonald, Q.C.,<br>Chair | Richard J. Smith,<br>Secretary |

President's Address to Shareholders
1995 Annual Meeting

*We are here together for two purposes. One is to examine the results produced by your company during the past fiscal year. The other is to assess, as best we are able, the future that lies ahead for Nova Scotia Power.*

*I believe that in reviewing the year just past, and in taking a forward view to the long and short term, we can draw the same strong impression. And that is a sense of confidence.*

*Confidence in our ability to make the company more productive and profitable. Confidence in our product and our people. Confidence in the economy of Nova Scotia. Above all, confidence in our competitiveness.*

*These are times, in the energy industry as elsewhere, of radical change and growing challenge. In fact, I think it is fair to say that the coming changes and challenges are greater in our industry than in most others. It is no time for us to cling to the status quo. Not if we want to be effective competitors.*

*I believe it clear, both in this year's annual report and in our strategies for tomorrow, that we are not a "status quo" company. We are becoming more entrepreneurial. We are not set in our ways, we are flexible. Not rules-driven but results-driven. That is as it should be and must be.*

*Let me elaborate on some of the directions in which the energy business is turning, beginning with regulation.*

*There was a time when our utility and others like it could correctly be described as monopolies - in that no one else was permitted to generate, transmit and retail electricity in the franchised area. Then came the move to an interconnected environment in which privately owned generating companies could sell power directly to the utility. That has been the case in this and other provinces for some time.*

*The next phase in the evolution of regulation is what is called "wheeling". Transmission wheeling is somewhat common in the United States and something we will almost certainly see more of in Canada in the future. Transmission wheeling permits generating companies to stream their power through local systems for sale to other utilities. It is more or less comparable to licensing interprovincial or interstate shippers to run their trucks on local highways.*

*Finally, there is the fully competitive environment in which generating companies can sell to anyone, anywhere, anytime. Obviously this means that the suppliers with the best service at the best price get the most business. That is exactly what Nova Scotia Power must be prepared to do.*

*Deregulation, new competition from other energy forms, new generating technologies; these are things we can meet and beat. We must be competitive. We know what we must do to be competitive and we will keep on doing it. Our people are well able to bring about the necessary changes. Competition will drive us to better things.*

*We are coming off a very exciting, a very challenging but very productive year. You heard from the Chief Financial Officer that we have had a successful financial year. We met our objectives. Also, as you know, 1994 was our 75th year in operation. To mark the anniversary, we published an excellent short history of the company. We established a number of special scholarships for young Nova Scotians and we sponsored a very high-profile seminar on the subject of economic development for Nova Scotia. We called it the Digby Dialogue. It brought together many business and political leaders from around the province to discuss economic renewal.*

*A signal event during our 75th year was the opening of our flagship generating station at Point Aconi. In 1994 it produced more than seven percent of the system energy requirements and reduced $SO_2$ emissions by 13 000 tonnes.*

*Our financial performance was excellent, with net earnings applicable to common shares exceeding those of 1993. We are most proud that we were able to earn our permitted return on investment in 1994 without any increase in electrical rates. We have been able to avoid raising rates for two years now. That is not to suggest that keeping up this kind of performance will be easy. Some specific issues have arisen recently that will have to be faced, and in fact are already being addressed.*

*One of these is the discontinuance of the Public Utilities Income Transfer Tax Act, or PUITTA for short. This is an added cost challenge. Elimination of PUITTA and increases in the large corporations tax will have an effect on Nova Scotia Power. The immediate impact is a tax bill that will increase by over $3 million this year and almost $6 million next year. Over the next ten years, our annual federal tax bill will rise significantly over present levels.*

*One thing this increased cost of doing business underscores is the fact that we have to keep right on finding every innovative means of increasing our productivity and effectiveness. I think it is very clear that we have been doing this for several years now. Productivity has increased substantially. But it is equally clear that there is a limit to what we can accomplish internally. Besides general operating expenditures, we have to ensure that every cost centre is aggressively pursued, such as interest, depreciation, and fuel.*

*With respect to fuel, that, frankly, is why we are so heavily involved in negotiating for a better deal from our principal supplier of coal, the Cape Breton Development Corporation. Make no mistake about it Devco coal is the coal we want to buy. Working together, Devco and Nova Scotia Power can have a great positive impact on the economy of Nova Scotia.*

*Our entire corporate culture is based on a determination to do all things better at less cost. There are some things we cannot change, but what we can change for the better, we will change for the better - we are doing so in every department. Hour by hour, shift by shift, day by day, our people are making advances - some of them small, some of them quite dramatic - that are helping make our company the best company it can be.*

*I want to take this opportunity to thank the employees of Nova Scotia Power for their loyalty and their hard work. I want to thank our Board of Directors for their guidance, and in particular, I want to thank each and every shareholder in the company. You are the co-venturers whose faith and whose personal resources are behind every accomplishment, every stride that Nova Scotia Power undertakes.*

*Let me conclude with the statement of mission that is our guide as we face the tasks that lie ahead of us.*

*"To be the most effective energy company in Canada providing the best possible level of customer satisfaction and shareholder value."*

*To do this we will need confidence; we will need competence; and we will need competitiveness. It means that this utility cannot be run like a utility any more, but must be run like any other business. It must focus on its customers in order to provide a fair shareholder value; it must be in the energy business; it must focus on improving revenue and earnings.*

*It must focus on its strengths and weaknesses; it must focus on financial strength; it must cut and manage costs better; it must stop acting as if it were regulated but make its decisions on sound business grounds; it must form strategic alliances. No, we are not yet the best, but we are well on our way.*

*I would like to take this opportunity to thank our Chairman, Joe Macdonald, for his interest in, and support of, Nova Scotia Power. Joe has worked hard and contributed a great deal to the Company. He has been instrumental in helping chart our course over the past 15 years. Joe is unselfish, having given a great deal of his time to us. He is a tremendous person, a great lawyer, a real gentleman, who is, and will continue to be, a great friend.*

*Finally, let me talk about the presidency of Nova Scotia Power. I have been President and Chief Executive Officer since 1983. For nine and half years this company was a crown corporation and since 1992 it has been investor-owned. I am now entering my 13th year and I think that in a company of this nature, offering a public*

*service, this is long enough. The company needs change and I need change. I have advised the Board of Directors that 1996 will be my final year at Nova Scotia Power. I will remain until a successor can be found.*

*I have tremendously enjoyed my time here and I still do. I am proud of what we have accomplished. Three very basic things in particular stand out in my mind. During the past decade our customers experienced rate increases that were among the lowest in Canada; our employees have been treated fairly, and since privatization our shareholders have earned a good rate of return for their investment.*

*I am proud of this company; proud of its people; and proud to have been a member of the team. Thank you for your support.*

Louis R. Comeau
April 20, 1995

# 1995 Annual Report

CREATING CUSTOMER VALUE

NOVA SCOTIA POWER

# Contents

## Financial Highlights

| Year ended December 31 | 1995 | 1994 |
|---|---|---|
| Total revenue | $720,600,000 | $715,600,000 |
| Net earnings applicable to common shares | $94,800,000 | $94,000,000 |
| Total assets | $2,818,200,000 | $2,760,600,000 |
| Capital expenditures | $88,000,000 | $94,700,000 |
| Total customers | 419,963 | 415,207 |
| Total employees | 1,935 | 2,181 |

## Supplemental Financial Data

Quarterly Financial Information (Unaudited)

| *millions of dollars* | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 1995 | | | | |
| Revenue | $203.6 | $170.9 | $159.1 | $187.0 |
| Earnings before interest and income taxes | 84.1 | 57.8 | 50.9 | 67.5 |
| Earnings before income taxes | 44.1 | 21.8 | 16.7 | 34.2 |
| Net earnings before dividends | 42.8 | 20.6 | 15.4 | 32.8 |
| Dividends on preferred shares | 4.2 | 4.2 | 4.2 | 4.2 |
| Net earnings applicable to common shares | $38.6 | $16.4 | $11.2 | $28.6 |
| 1994 | | | | |
| Revenue | $209.4 | $166.6 | $155.1 | $184.5 |
| Earnings before interest and income taxes | 86.8 | 58.4 | 48.4 | 70.4 |
| Earnings before income taxes | 47.5 | 20.4 | 8.9 | 35.0 |
| Net earnings before dividends | 47.3 | 20.2 | 8.6 | 34.7 |
| Dividends on preferred shares | 4.2 | 4.3 | 4.2 | 4.1 |
| Net earnings applicable to common shares | $43.1 | $15.9 | $4.4 | $30.6 |

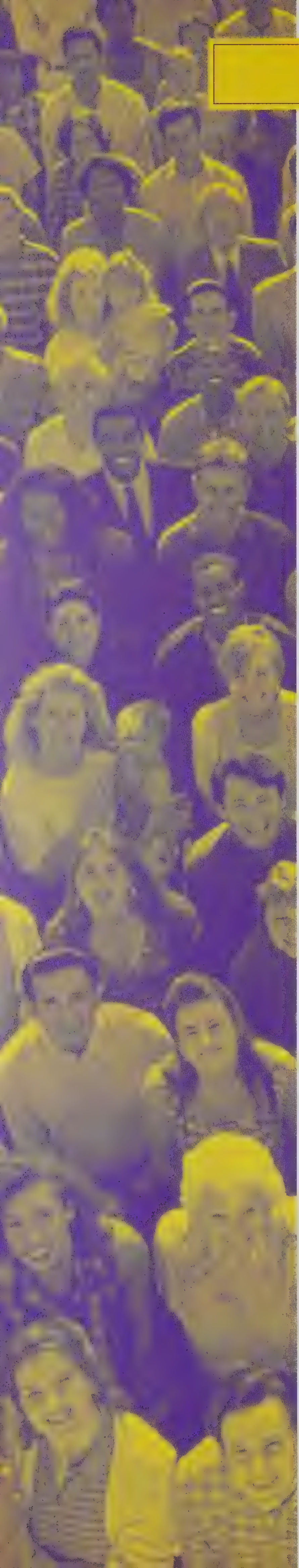
*Note: Interim results are not necessarily indicative of results for the full year due primarily to seasonal factors. Sales and production levels change significantly over the year as a result of marked differences in temperatures and daylight hours.*

*Over the past year, Nova Scotia Power has concentrated on a single, primary goal: to create even greater value for our customers in the delivery of electricity.*

*Across the province, communities faced their own challenges on the road to success. We recognize their imagination and spirited teamwork. Their efforts – in fields as diverse as the arts, small business, the information highway and community health care – reflect the core of the Nova Scotia character. Drive, determination and perseverance. And, above all, a focus on the future.*

*In working toward our goal of creating customer value, your company, too, exemplifies that character.*

*In choosing to feature just a few of the many community accomplishments of 1995 in this Annual Report, we salute the sense of creativity and hard work that Nova Scotians bring to all challenges in a time of great and rapid change.*



## PRESIDENT'S MESSAGE

The past fiscal year produced a return on common equity of 11.5%, within the range of the rate of return permitted by our regulator, the Nova Scotia Utility and Review Board. Our net earnings applicable to common shares amounted to $94.8 million, as compared with $94 million in fiscal 1994.

Achieving these results was not easy. To reach them, Nova Scotia Power had to realize a savings of about $10 million in annual cost of operations and interest expense. Most of the savings came from three areas. We completed a corporate restructuring, tightening our operations and increasing our productivity. We negotiated a lower price for the coal we buy from our principal supplier, the Cape Breton Development Corporation. And we benefited from decreased net interest due mainly to long-term debt issued at lower interest rates and higher earnings on matching notes receivable (sinking funds).

Nova Scotia Power has a good reputation in the Canadian financial community for proficiency in capital management, a fact that contributes in a very real way to our bottom line. During 1995 we managed our debts, lowered our interest costs and improved the quality of the defeasance portfolio. Defeasance of the debt guaranteed by the provincial government is 79% complete and continues well ahead of the schedule established at the time of privatization.

The price of electricity, as the biggest concern of most customers, is something we work persistently to contain. Our rate increases over the past decade have been well below the Canadian average, and significantly less than the increase in the Consumer Price Index, and for the past two years, we have been able to reach our operating objectives with no increase in rates. We had hoped to continue through 1996 as well without applying to the Utility and Review Board for an increase, but found it impossible. A considerable increase in costs beyond our control, including a major increase in our tax burden, required us, late in the year, to submit an application for a rate restructuring involving an overall increase of about 3% for 1996.

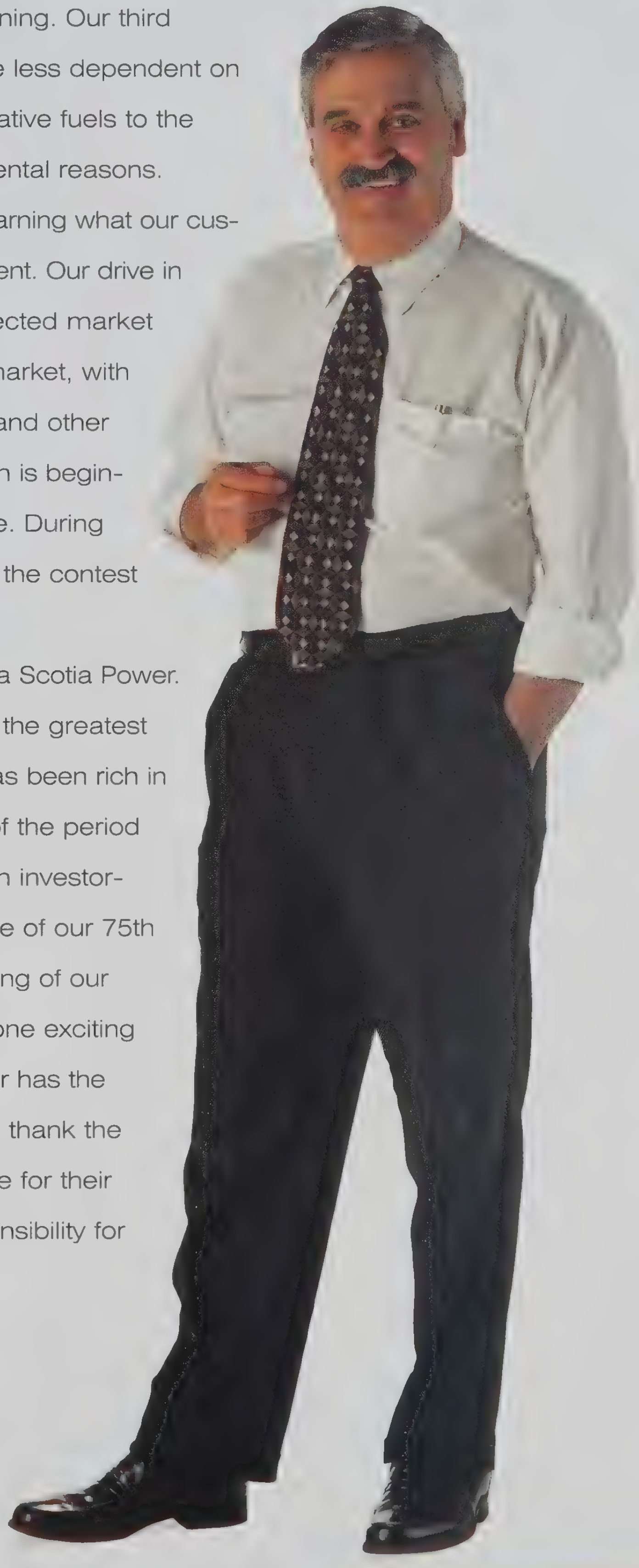
Our efforts and accomplishments in 1995 have been diverse. We have introduced extensive changes in our corporate structure. We have successfully reduced our cost of operations. We have transformed the means by which we provide service to our customers. We have introduced a number of exciting new programs and services. And all these initiatives have one thing in common: the potential to add significantly to the value of the electricity we generate, transmit and distribute. Electricity is a remarkably accessible and adaptable energy form which enriches virtually every aspect of our customers' lives.

Nova Scotia Power is a strong company, driven by a strong spirit. We are responding to the challenges presented by our industry. We have a firm grasp of the realities of our market, our regulatory environment and our competitive position.

We are working to four major strategies that we have developed in order to meet, in an effective way, the changes that face us. The first is to reduce the cost and improve the quality of our energy delivery. The second is to improve the effectiveness of our organization through technology and training. Our third imperative is to develop new business ventures and become less dependent on our core business alone. And finally, we must develop alternative fuels to the greatest extent possible, for both cost-related and environmental reasons.

In 1995 we made strong strides toward a firm objective: learning what our customers value most and providing more of it for every dollar spent. Our drive in this direction is a timely one. Electricity is no longer the protected market that it once was. We are now doing business in an energy market, with competition coming from many directions including oil, gas and other energy forms. Simultaneously, the approach to utility regulation is beginning to change throughout North America. It will change here. During 1995 we marshalled our human and technical resources for the contest to come. They will serve us effectively.

This message is my last as the president and CEO of Nova Scotia Power. Serving in this capacity for the past 13 years has been one of the greatest privileges and biggest challenges of my life. My time here has been rich in associations and satisfaction. Among the noteworthy events of the period were our successful transition from a crown corporation to an investor-owned company listed on the TSE 100 Index, the observance of our 75th Anniversary as Nova Scotia's electric utility and the undertaking of our corporate restructuring. The energy market itself has undergone exciting changes as well, and I am convinced that Nova Scotia Power has the ability to make the most of each new opportunity that arises. I thank the Board of Directors, employees, investors and customers alike for their confidence in me. My successor inherits the executive responsibility for a splendid organization with a promising future.



**L.R. Comeau**

President and Chief Executive Officer

## Contacting our customers

We made good progress in 1995, through research, in finding out exactly what our customers consider most valuable in terms of products and services. Of course, in sounding out the feelings and expectations of our customers we depended strongly on those who know them best. Our own people, working in our field operations, gave us particularly valuable feedback.

Not unexpectedly, customers of all kinds say they want Nova Scotia Power to be more competitive on price. What commercial and industrial customers pay for electricity bears heavily on their own competitiveness. Institutional customers have all suffered severe cutbacks in budget, and they, too, want the lowest possible rates. And residential customers are very mindful of household electricity costs. The message is clear: we must maintain our all-out effort to operate as cost-effectively as we can and ensure that the customer benefits as a result.

Urban or rural, large or small, all customers told us how important their personal contact with our employees is to them. Our customers want to deal with a Nova Scotia Power that makes everything easier and more convenient, and response that goes beyond simple courtesy. As with any service business, genuine concern and friendliness has to be as much a part of our stock in trade as the functions our people perform and the product they help deliver.

**Ensuring close contact**

Providing good two-way contact between company and customer is an essential part of any service business. Nova Scotia Power's Call Network was designed and created with just that objective in mind. It's a leading-edge system with the capacity to facilitate calls to and from every corner of the province. Just as importantly, it's staffed by highly-trained Nova Scotia Power people ready to help.

**Sharon Arthur**
Commercial Customer Service Representative, Call Network

## Meeting the need

Nova Scotia Power has wasted no time in responding to the clear messages of our customers. We have set out to do two things in particular: keep rates as low as possible and ensure that customers get more value out of every dollar spent on electricity.

Our corporate restructuring is in itself an exercise in building value into our product. We have successfully created a more effective organization – one that can do "more with less". Most responsibility for decisions and action now rests with people in the field, rather than in Head Office. Among customer service employees, that encourages closer contact with

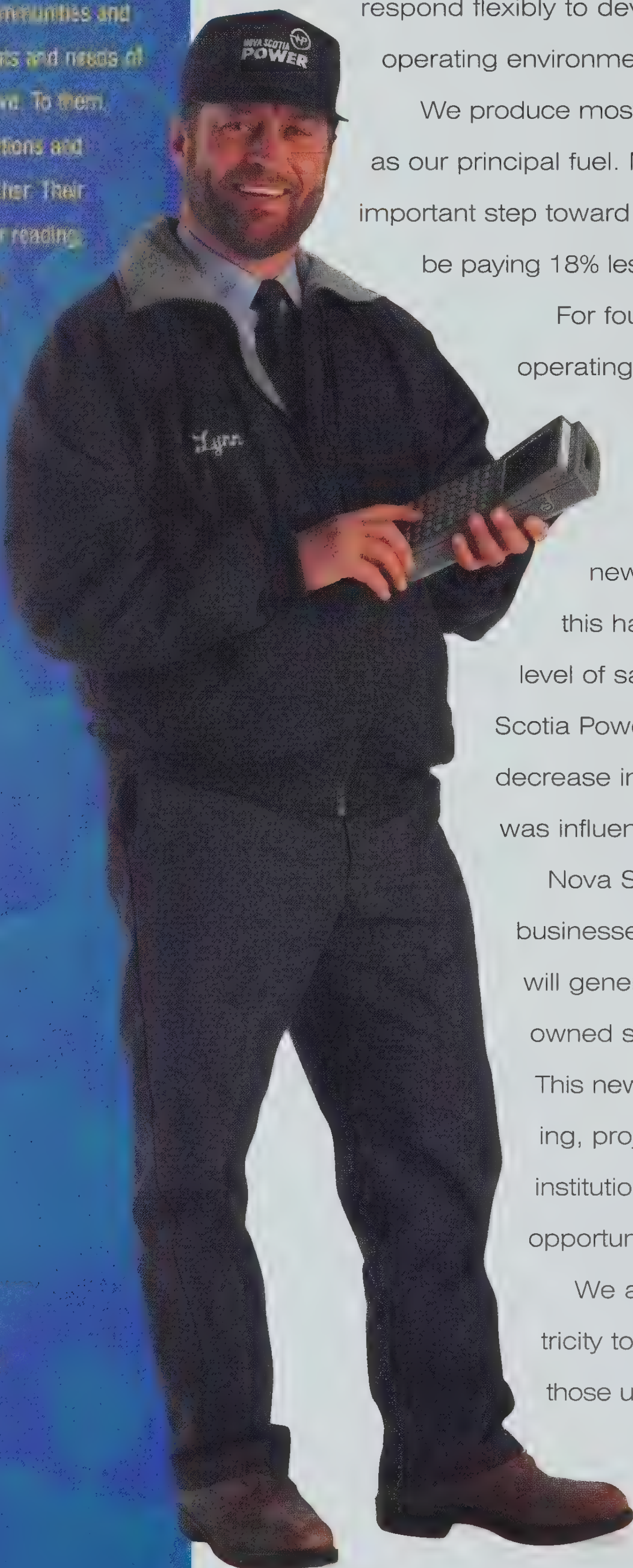

*In a region whose future is tied to the development of new opportunities, a lot depends on making contact with the best resources – around the country or around the world. The Cape Breton Community Network, linking home, school and public library computers with the information highway, owes its popularity and success to support from the academic and business sectors and a corps of community volunteers. The Cape Breton Community Network makes it easy for North Sydney computer science student Darryl Campbell to get "on-line".*

the customer and quicker, more personal response to their needs. Operations people can also move more quickly and effectively to ensure that generation, transmission and distribution are up to excellent standards. Referral to Head Office is the exception rather than the rule. Even the Human Resources support that employees depend on is now effectively a field, rather than a Head Office, function.

Our plan to reorganize the company into business units was firmed up during 1995, to the point where this fundamental change will be approaching completion in 1996. This structure, with the autonomy and accountability it gives our various corporate groups, will make it easier for Nova Scotia Power to respond flexibly to developments in the marketing, production and operating environments.

**Understanding our customers**

Nova Scotia Power's Customer Service Field Representatives work within their own communities and understand the wants and needs of the people they serve. To them, good customer relations and good work go together. Their duties involve meter reading, billing matters, and trouble-shooting of many kinds, but customer satisfaction is always the primary goal.



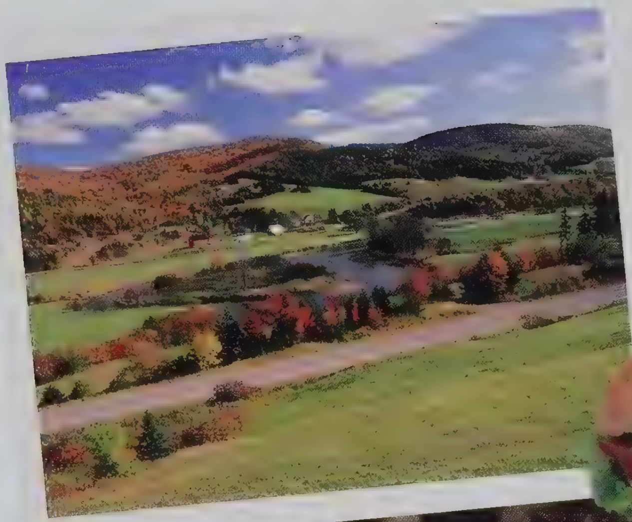

**Lynn Hemeon**
Customer Service
Field Representative,
Yarmouth

We produce most of our electricity by thermal generation, with coal as our principal fuel. Negotiating significantly lower coal prices was an important step toward containing our operating costs. By 1997, we will be paying 18% less for coal than we did at the end of March, 1995.

For four consecutive years, we have improved plant operating efficiency, saving $5 million a year and reducing $SO_2$ emissions. These results were achieved through investing in plant modifications, and through management techniques supported by new computer-based technologies. Of course, all of this has been achieved while maintaining the highest level of safety standards. Safety performance at Nova Scotia Power continues to improve as evidenced by a 15% decrease in injuries experienced. The severity rate for 1995 was influenced by one significant electrical contact incident.

Nova Scotia Power's strategy to develop energy-related businesses outside our core business as a regulated utility will generate new revenue. We established one wholly-owned subsidiary in 1995: NSP Energy Services Limited. This new company provides analysis, planning, engineering, project management and capital to commercial and institutional customers. Nova Scotia Power is examining opportunities in other non-regulated areas as well.

We also took a step designed to lower costs of electricity to residential customers with high loads – typically those using electric heat – and for many small businesses.



*Recent trends require that Nova Scotians understand and adapt to new approaches to community health. The school lunch program in Margaree Forks, one of a number of programs started by the community-run Cheticamp area Primary Health Care Project, provides nutritious meals to students with no access to a cafeteria or commercial food service. The Cheticamp area Primary Health Care Project helped Home and School President Maria Coady and her colleagues bring nutritious lunches to students of Margaree Forks School.*

We applied to the Nova Scotia Utility and Review Board for a restructuring of rates. The effect of the request on rates for 1996 would be an overall increase of 3%, the first in three years. But, at the same time, the requested changes will put some small businesses into a more favourable rate category and make electric home heat a more economical proposition.

In the longer term, Nova Scotia Power will be working to change the entire regulatory framework within which we operate. Many new challenges are facing us: the need to further reduce costs, the prospect of little load growth and a major increasing tax burden. We can and will deal with these things, but to do so we must have a regulatory philosophy that is based on performance in the market, rather than on production costs alone.

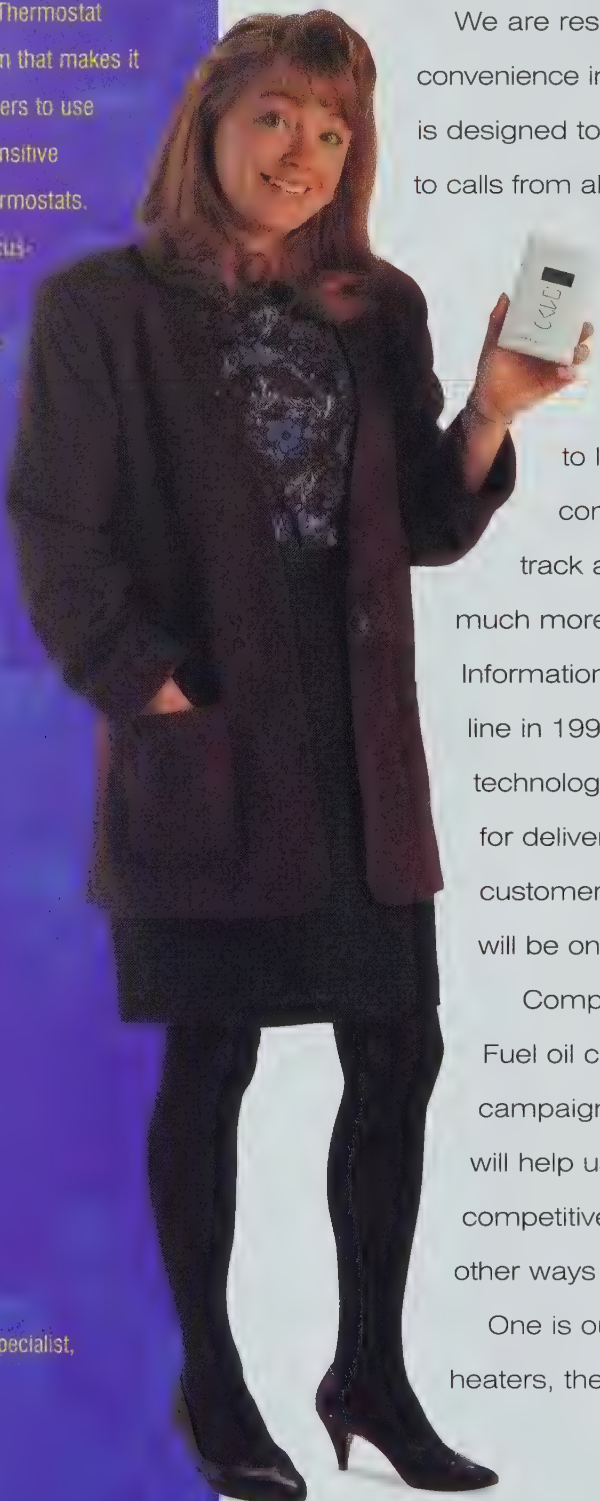
**Taking action to create customer value**

When our electric heat customers told us they wanted greater control over comfort and cost, we acted. We introduced a Thermostat Financing Program that makes it easier for customers to use new and more sensitive Power Smart Thermostats. The value to our customers is steady even, comfortable heat which uses less energy and costs less, too.

We are responding in four ways to our customers' call for greater convenience in dealing with Nova Scotia Power. Our new Call Network is designed to expedite customer service, and improve our response to calls from all over the province. We are providing easier ways of bill-paying for our customers, both through community-based Payment Agents and innovative payment programs – PaySmart is a convenient automatic prepayment plan, and Budget Billing allows customers to level out their monthly payments. Through our new, computerized Work Management System, we can assign, track and follow up on customer-related projects, at any stage, much more effectively than before. Work on our new Customer Information System began in 1995. When the system is fully on-line in 1997, it will integrate all these resources. The advanced technology of the system will provide a versatile and powerful tool for delivering unexcelled customer service. The final step in this customer service delivery plan will be a guarantee that service will be on time and performed to the satisfaction of the customer.

Competition is at a new high in the home heating market. Fuel oil companies have launched aggressive advertising campaigns focused directly on heating costs. Rate restructuring will help us secure our share of this crucial market through more competitive pricing. But we are moving toward the objective in other ways as well.

One is our successful drive to promote Power Smart water heaters, thermostats and other home appliances – products that



**Mary Nowlan**
Program Design Specialist,
Halifax

*Everyone took action as Wolfville's Atlantic Theatre Festival approached its debut 1995 season. Community volunteers assumed duties from fund raising to set painting, ushering and poster hanging. Local businesses donated goods and services. And a disused Acadia University rink building was transformed into a professional-level theatre. The community's role, though offstage, was critical to the Festival's success. Atlantic Theatre Festival brought actors Leon Pownall and Catherine Vaneri onstage in the fast-moving farce, "A Flea in Her Ear".*

provide lifestyle benefits and lower household electric costs. The greater the value in home and water heating we deliver, the higher the satisfaction of our customer in our product.

## The goal: more value

There is no aspect of the company that is not affected by Nova Scotia Power's resolute drive to create more customer value. In fact, this has become a precept of our corporate culture. It is the foundation on which our programs, systems and processes are built, and the measure by which their success is judged.

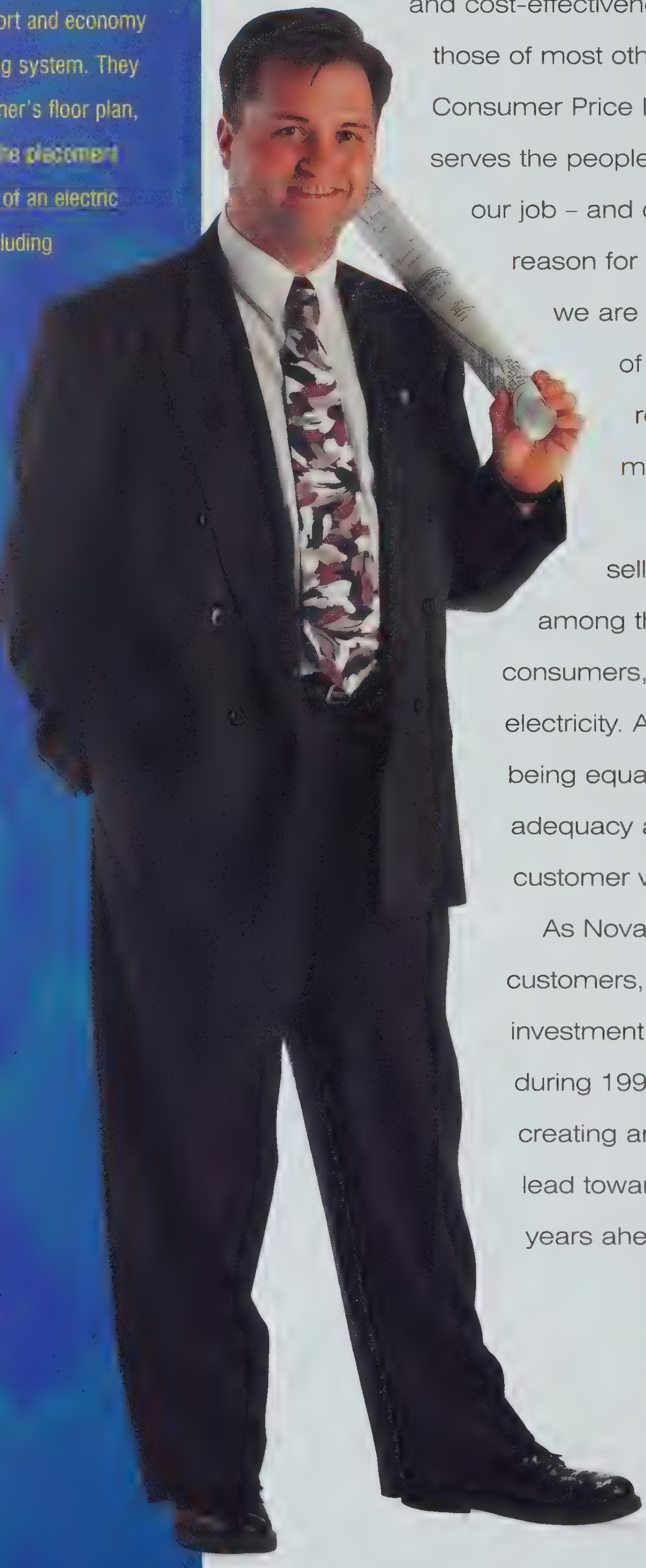
Electricity offers a unique combination of power, convenience, accessibility and cost-effectiveness. Cost increases are consistently less than those of most other goods and services, as comparison with the Consumer Price Index confirms. Electric power reaches and serves the people of all our communities in countless ways. It is our job – and our intention – to ensure that there is excellent reason for customers to prefer electrical power. Moreover, we are determined that our company be the supplier of choice in the Nova Scotia market, and, as regulatory changes permit, in appropriate other markets as well.

There are many ways to add value to what we sell – technology, training, innovation and hard work among them. We can also enhance value by helping consumers, large and small, make wise, economical use of electricity. And we are doing all these things. But all else being equal, the factor that makes the difference between adequacy and excellence is knowing exactly what the customer values most, and providing it best.

As Nova Scotia Power provides increasing value to our customers, we will make the company a more competitive investment. The steps we took and the plans we made during 1995 will add momentum to our drive toward creating and delivering customer value. The same steps lead toward continuing success for the company in the years ahead.

**Building comfort and economy**

Nova Scotia Power's free Heat Design service is staffed by experts who know how to build the best value in comfort and economy into a home heating system. They analyze the customer's floor plan, then recommend the placement and specifications of an electric heating system, including thermostats and insulation levels, that will do the job best.

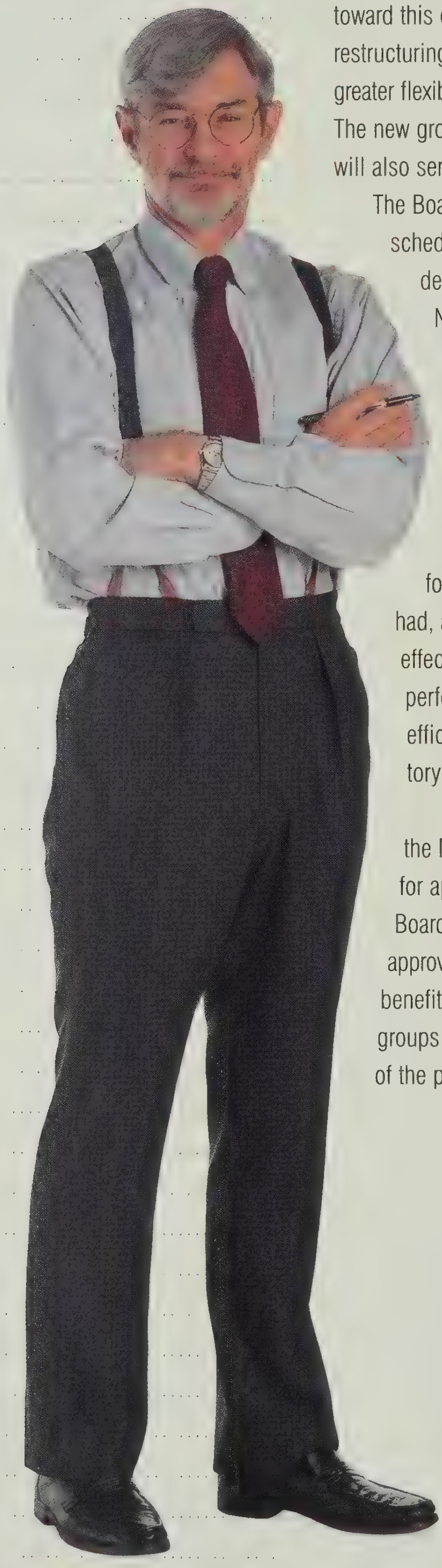


**Harold Sears**
Field Technologist,
Truro


*Building even the smallest business takes money.*

*Calmeadow Nova Scotia supports peer lending groups throughout the province. Each group approves and guarantees small loans to members. In Shelburne County, a now-thriving greeting card company is one of 74 businesses supported by a loan from the local Calmeadow group. Calmeadow Nova Scotia helped Donnie Whiteway establish his small custom greeting card company in his Shelburne home.*

# CHAIRMAN'S MESSAGE



During 1995 your Board of Directors participated in a year of successful performance for the company. The challenge of creating shareholder value as competitive pressures and input costs mount is considerable. The utility can only do that by delivering electricity reliably at competitive cost.

The Board approved a number of initiatives toward this objective, notably the corporate restructuring that will provide the company with greater flexibility as more deregulation approaches. The new growth ventures created during the year will also serve that purpose effectively.

The Board is pleased that we are ahead of schedule on the defeasance program of the debt guaranteed by the Government of Nova Scotia on the company's behalf.

We devoted much of our attention and support to the company's negotiations with the Cape Breton Development Corporation for a lower price for coal, and we would like to pay tribute to their Chairman for his leadership. The savings achieved had, and will continue to have, a beneficial effect on our customer value and financial performance. Further internal operating efficiencies also contributed to a satisfactory bottom line.

The company applied in August to the Nova Scotia Utility and Review Board for approval of a rate restructuring. Your Board is convinced that the changes, if approved by the UARB, will provide long term benefits to shareholders and to customer groups including the small business sector of the province.

In asking the UARB to establish an Industrial Expansion Rate, the company has a view to expanding the industrial base of Nova Scotia through more competitive rates for new and expanding operations. The Board is strongly mindful of the fact that Nova Scotia Power's success is tied to the ability of the industries of the province to compete effectively.

On behalf of the Board, I would like to thank Mr. Louis Comeau for his dedicated service and immense contribution to Nova Scotia Power. His tenure as President and CEO covered a period of historic change and growth, including the successful privatization of the utility. His contribution was crucial to the company's excellent progress during a time of particularly high challenge. The Board has devoted much time and effort to the search for a new President and Chief Executive Officer, to take the place of Mr. Comeau on his retirement.

1995 has been the first fiscal year during which I have acted as your Chairman, having been appointed on April 20, 1995. The Directors express their thanks to Joseph A.F. Macdonald, QC, the outgoing Chairman, for the dedication, enthusiasm and effectiveness with which he carried out his duties. His example has been most valuable to me in assuming my new responsibilities.

**Derek Oland**
Chairman of the Board

Nova Scotia Power Inc. (Nova Scotia Power) is the principal supplier of electricity in Nova Scotia. Its system is province wide and its operations include approximately 94% of the generation, 99% of the transmission and 95% of the distribution of electric power throughout Nova Scotia.

On August 10, 1992, Nova Scotia Power acquired the operating assets of Nova Scotia Power Corporation (NSPC), a Crown Corporation which had generated, transmitted and distributed electricity in Nova Scotia since 1919.

## Regulation

### Nova Scotia Utility and Review Board

Nova Scotia Power is a public utility as defined in the Public Utilities Act (Nova Scotia) and is subject to regulation under that Act by the Nova Scotia Utility and Review Board (UARB). The Act gives the UARB supervisory powers over Nova Scotia Power's operations and expenditures. Electricity rates for Nova Scotia Power customers are also subject to UARB approval.

On August 17, 1995, Nova Scotia Power filed an application with the UARB seeking changes to electric rates. The requested rate changes are expected to result in additional revenue of approximately $22 million, which is required to help offset increased costs in 1996. Nova Scotia Power's application seeks an average rate increase to customers of approximately three percent, although this will vary by customer classification. Also proposed is the implementation of voluntary time of use rates, in 1996 and 1997. The Company has also sought the approval of the UARB to adjust the range of its allowed annual rate of return on common equity to 11.5%-12.5%, from 11.5%-12%. Nova Scotia Power's application is based on a 12% return on common equity, the mid-point of the requested range. The UARB's ruling on this application is expected in late February, 1996.

### Electricity Regulation Review Panel

In October of 1994 the Government of Nova Scotia established an Electricity Regulation Review Panel to gather public input and to advise Government on various aspects of the provincial regulation of electricity production and transmission. The panel held public hearings in January 1995 and submitted a report to Government, the results of which have not been made public.

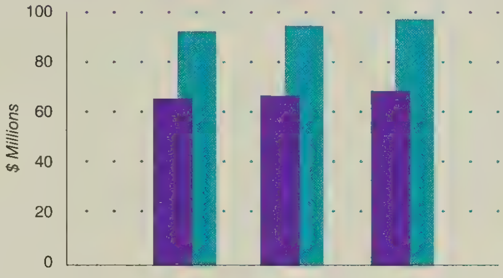
In August of 1995, the Government announced it is reviewing the mandate of the UARB and in particular, is examining possible amendments to the Public Utilities Act.

### Securities Regulation

Nova Scotia Power is subject to securities regulation in all provinces of Canada and to the rules of the Toronto and Montreal stock exchanges.

## Earnings

### Net Earnings Applicable to Common Shares and Common Dividends Paid



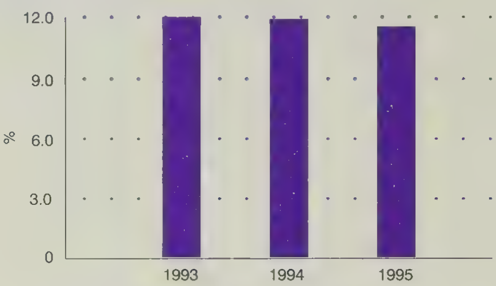

| | 1993 | 1994 | 1995 |
|---|---|---|---|
| Net Earnings | $91.5 | $94.0 | $94.8 |
| Dividends | $63.9 | $64.8 | $66.7 |

Net earnings applicable to common shares were $94.8 million (earnings per share - $1.11), as compared to the $94.0 million (earnings per share – $1.10) earned in 1994. This represents a return on common equity of 11.5%, as compared with 11.9% for 1994. The following factors, which are more fully explained later in this discussion, had a significant impact on earnings:

- revenue growth has been marginal as a result of warmer temperatures, slow economic growth, competition from alternative energy sources and more efficient use of electricity by customers;
- the introduction of the Point Aconi generating station in March 1994 has resulted, as expected, in increased operating, interest and depreciation expenses;
- a favourable interest rate environment, coupled with strong management of the long-term debt and matching note receivable (sinking fund) portfolios have contributed to significant interest savings in 1995;
- operating, maintenance and general expenses have been reduced as a result of cost reduction programs during 1995; and
- the elimination of the Company's federal tax rebate has resulted in increased income tax expense.

Increased revenues and ongoing efforts to reduce costs and increase efficiency should allow Nova Scotia Power to earn its permitted rate of return in 1996.

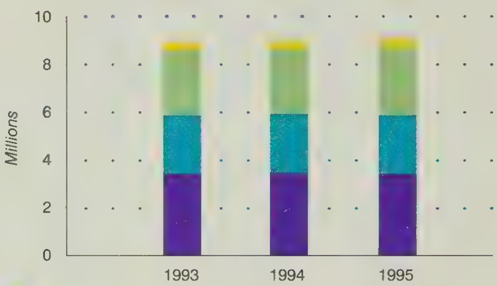
### Return on Common Equity




Allowed Range for Annual Return on Common Equity – 11.5% to 12%

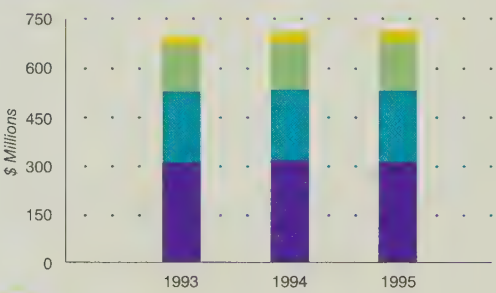
## Revenue

### Revenue by Source *(kWh)*




| | 1993 | 1994 | 1995 |
|---|---|---|---|
| Other | 347.4 | 350.2 | 349.7 |
| Industrial | 2,706.3 | 2,715.0 | 2,820.9 |
| Commercial | 2,440.1 | 2,455.4 | 2,483.9 |
| Residential | 3,400.3 | 3,445.3 | 3,380.3 |

### Revenue by Source *(Dollars)*




| | 1993 | 1994 | 1995 |
|---|---|---|---|
| Other | 31.5 | 32.1 | 32.3 |
| Industrial | 141.8 | 140.5 | 146.7 |
| Commercial | 216.9 | 217.7 | 219.7 |
| Residential | 309.9 | 317.6 | 313.0 |

Electric revenue grew at a rate of 0.5% ($3.8 million) during 1995, increasing to $711.7 million. Nova Scotia Power had expected a 1% to 2% growth in sales volume over 1994 levels but fell short of this target mainly due to lower residential sales.

### Residential Revenue

1995 vs. 1994

| $ Change (millions) | % Change Dollars | GWH change | % Change GWH |
|---|---|---|---|
| (4.6) | (1.45%) | (65.0) | (1.89%) |

The decrease in residential revenue from 1994 levels was due mainly to warmer temperatures, slow economic growth, competition from alternative energy sources and increased energy efficiency by customers.

### Commercial Revenue

1995 vs. 1994

| $ Change (millions) | % Change Dollars | GWH change | % Change GWH |
|---|---|---|---|
| 2.0 | 0.92% | 28.5 | 1.16% |

The increase in commercial sales from 1994 levels was due mainly to increased demand from large commercial customers, particularly hospitals, universities and shopping centres.

### Industrial Revenue

1995 vs. 1994

| $ Change (millions) | % Change Dollars | GWH change | % Change GWH |
|---|---|---|---|
| 6.2 | 4.41% | 105.9 | 3.90% |

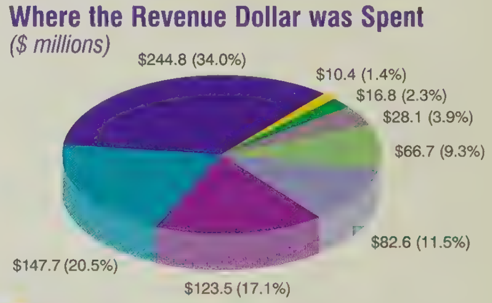
Sales in this sector increased from 1994 levels as a result of increased demand in all major classifications. The higher demand was due to increased activity for the majority of Nova Scotia Power's largest industrial customers, including those in the pulp and paper and steel industries.

In 1996, total electricity usage is expected to increase by 2.3% over 1995 levels on the strength of significant growth in industrial demand. Competition from alternative energy sources and increased energy efficiency by customers are expected to result in minimal residential sales growth. Strong industrial sales volume growth, coupled with a requested three percent general rate increase, would increase electric revenue by approximately 5% over 1995 levels.

## Cost of Operations

### Where the Revenue Dollar was Spent

*($ millions)*




- Direct taxes
- Preferred dividends
- Reinvested in the Company
- Common dividends
- Depreciation, net
- Interest, net
- Operating, maintenance and general
- Fuel for generation and power purchased

### Generating Capacity

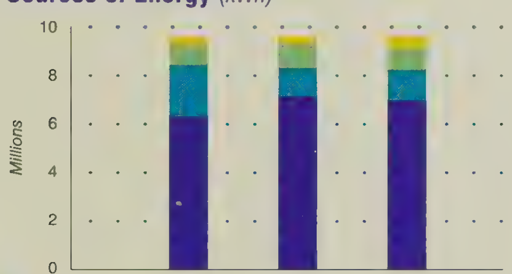
The majority of Nova Scotia Power's 2,299 megawatts of nameplate capacity is represented by thermal plants. Hydroelectric plants are used

primarily to provide peaking capacity due to their limited energy production capability. Gas turbine plants, fuelled by light fuel oil, provide peaking and emergency capacity in the event that other plants are unable to meet the load requirements.

To provide reliable service, Nova Scotia Power maintains a generating capacity greater than Firm Peak Demand to ensure that a loss of load probability of not greater than one day in ten years is achieved. This criterion results in a generation reserve margin in the range of 20%. In 1995, Nova Scotia Power had a peak demand of 1800 megawatts as compared to a generating capacity of 2,299 megawatts. Slower than anticipated economic growth has resulted in surplus capacity in the electrical industry in North America. Nova Scotia Power's capacity is currently in excess of emergency or peak demand needs. Accordingly, the Glace Bay generating station, Nova Scotia Power's least cost efficient coal-fired plant, was removed from service in 1995. Based on current forecasts of customer demand, Nova Scotia Power expects to bring the Glace Bay plant back to active service in the year 2002.

During a routine maintenance shutdown at Nova Scotia Power's Point Aconi generating station, cracks, which were unrelated to the circulating fluidized bed technology, were discovered in components of the boiler. The cracks, resulting from a defective manufacturing process, were repaired and Point Aconi is currently operating at full capacity. The two month shutdown for repairs resulted in increased fuel, purchased power and maintenance costs in 1995.

### Sources of Energy *(kWh)*




| | 1993 | 1994 | 1995 |
|---|---|---|---|
| Purchases | 218.9 | 216.2 | 499.5 |
| Hydro | 877.6 | 1,012.0 | 883.2 |
| Thermal-Oil | 2,117.2 | 1,205.7 | 1,239.4 |
| Thermal-Coal | 6,345.6 | 7,159.7 | 7,053.1 |

### Fuel for Generation and Power Purchased

The cost of fuel for generation and power purchased, Nova Scotia Power's single largest expense, decreased $1.8 million to $244.8 million. This decrease was due largely to lower coal prices in 1995 ($10.4 million). Higher oil prices ($3.8 million) and a 13% decrease in hydro production partially offset these savings. To meet an overall increase in load requirement of 82 GWh, the cost of fuel for generation and power purchased increased $5.1 million over 1994 levels.

Nova Scotia Power expects 1996 fuel and purchased power costs to approximate 1995 levels despite the anticipated growth in demand for electricity. This is due mainly to cost savings resulting from negotiations with our principal coal supplier.

Nova Scotia Power's coal supply is obtained from mines located in Nova Scotia. Approximately 2.4 million tonnes are supplied annually under contract with the Cape Breton Development Corporation (CBDC). During 1995, Nova Scotia Power reached an agreement with CBDC which settled outstanding contractual issues between the parties including prices and quantities of coal to be supplied. The agreement covers the period from April 1, 1995, to December 31, 1999.

Under the terms of the agreement, the price of coal purchased for the Lingan, Point Tupper and Point Aconi plants will be reduced annually such that the price for thc year commencing on January 1, 1997, will be 18 percent less than the price paid for the coal on March 31, 1995. In the years 1998 and 1999 the price will be calculated based on adjustments in the Consumer Price Index. Nova Scotia Power has also agreed to purchase coal from CBDC for use in its Trenton Generating Station during the contract period.

Nova Scotia Power has a commitment to purchase a minimum quantity of coal annually, under the CBDC contract. Subject to these minimum purchase requirements and oil delivery and storage constraints, purchases are adjusted between coal and oil to minimize fuel costs. Any additional coal required is provided by CBDC and a number of other suppliers under separate contracts.

The cost of heavy fuel oil is subject to fluctuations in the world market price (quoted in U.S. dollars) and to the U.S. dollar exchange rate. To protect against price increases, Nova Scotia Power uses oil swap agreements under which Nova Scotia Power swaps floating price heavy fuel oil for fixed price heavy fuel oil. During 1995, Nova Scotia Power entered into swap agreements for

approximately 50% of its 1995 fuel oil requirements. As at December 31, 1995, Nova Scotia Power had fixed its entire estimated heavy fuel oil requirement for 1996 through fixed price contracts and swaps. Nova Scotia Power will continue to use swap agreements to manage its exposure to fluctuations in the price of heavy fuel oil. Nova Scotia Power's remaining exposure on this requirement is limited to currency rate fluctuations with the U.S. dollar, which is managed through the use of forward foreign exchange contracts.

Nova Scotia Power purchases power from other utilities, primarily New Brunswick Electric Power Commission, in order to reduce the total cost of the generating mix. For 1996, the UARB has approved the purchase of electricity from independent power producers at specified levels and prices, which will total approximately $13 million during 1996.

### Operating, Maintenance and General

Operating, maintenance and general expenses decreased from $151.3 million in 1994 to $147.7 million in 1995, due mainly to efficiency savings and cost reduction programs, including a corporate reorganization.

Nova Scotia Power expects operating, maintenance and general expenses to increase marginally in 1996.

*Union Contract*

The International Brotherhood of Electrical Workers (I.B.E.W.), Local 1928, recently ratified a three-year contract with Nova Scotia Power. The contract is effective through March 1998. Approximately 50% of Nova Scotia Power's employees are members of the I.B.E.W. union.

*Corporate Reorganization*

A comprehensive review of Nova Scotia Power's structure and operations was completed during 1995 as part of the process of making the Company more cost effective. As a result of this review, Nova Scotia Power has been reorganized to meet impending challenges including significantly increased income tax costs, lower growth in demand for electricity and potential regulatory changes which could lead to increased competition. The reorganization is intended to enable Nova Scotia Power to meet its objective of improving customer value while minimizing the need for rate increases.

The reorganization resulted in a reduction to the workforce of 276 employees, generating an estimated $15 million in annual cost savings. Employees leaving Nova Scotia Power have been provided a severance package based on years of service. To enhance rate stability, the UARB approved Nova Scotia Power's request to defer and amortize the severance costs of the program over a three year period, with an annual expected cost of $9.0 million.

### Grants in Lieu of Property Taxes

The Company pays annual grants to municipalities of Nova Scotia, in lieu of all municipal taxation other than deed transfer tax. For 1995, these grants totalled $5.2 million (1994 – $5.1 million).

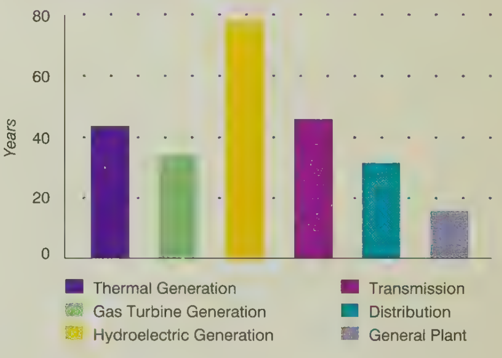
Nova Scotia Power does not expect grants in lieu of property taxes to increase in 1996. The Company expects legislation to be introduced in the Nova Scotia Legislature later in 1996, which may significantly increase the total grants in lieu of property taxes during the following five or six years.

## Depreciation

Depreciation expense increased by $3.4 million to $86.5 million in 1995 (1994 - $83.1 million). Approximately half of this increase was as a result of a full year's depreciation being charged for the Point Aconi generating facility in 1995. The remainder of the increase resulted from the normal addition and retirement of plant and equipment.

The UARB approves the depreciation rates used by Nova Scotia Power. During 1995, depreciation rates of certain major categories of plant in service were reviewed to reflect an extension of their estimated average service lives. An application to revise these rates was submitted to the UARB in August 1995. A ruling on this application was received in January, 1996. The revised rates were approved by the UARB and are effective beginning in January, 1996.

### Estimated Average Service Life of Assets



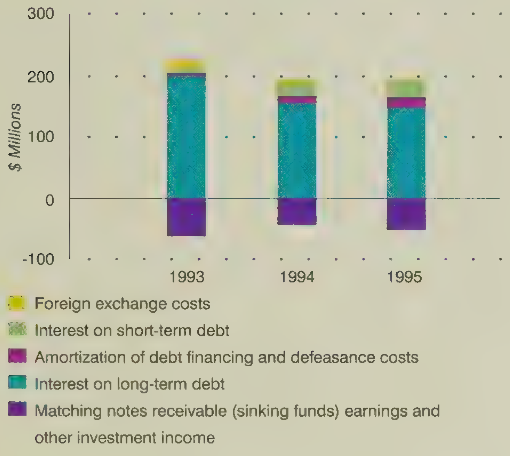
Depreciation expense is expected to decrease marginally in 1996, with additional depreciation charges associated with the $96 million 1996 capital expenditure program offsetting most of the $3 million decrease resulting from the revised depreciation rates.

## Interest

Net interest expense decreased $8.7 million to $143.5 million during 1995, due mainly to long-term debt issued at lower interest rates and higher earnings on matching notes receivable (sinking funds). Costs pertaining to the refinancing of provincially-guaranteed debt are amortized over the life of the related debt and are included in interest expense.

Nova Scotia Power is expecting an increase in interest expense for 1996 as a consequence of reduced earnings on matching notes receivable (sinking funds). The reduction in matching notes receivable (sinking fund) earnings will be partially offset by reduced borrowing costs.

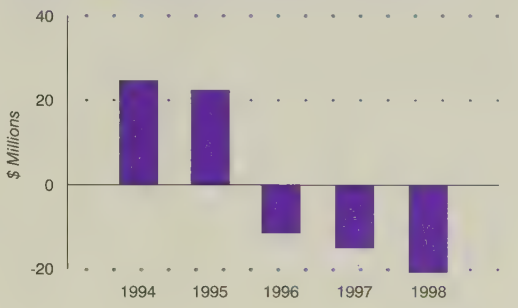
**Interest**




## Deferral of Point Aconi Expenses

The Point Aconi generating plant entered commercial service in March 1994. With a total estimated cost of $442 million, Point Aconi's inclusion in the rate base increased annual depreciation and interest expense by approximately $56 million. To minimize a rate increase which could result from this increased expense, the UARB approved Nova Scotia Power's request to defer a portion of Point Aconi's depreciation and interest expense into future years. This ruling has permitted Nova Scotia Power to defer a portion of such expenses together with an imputed cost-of-capital charge, at a rate of 50% in 1994, and 33 1/3% in 1995. For 1995, this deferral totalled $22.6 million (1994 - $24.9 million). Beginning in 1996 and continuing through 1998, a portion of the deferred amount will be amortized to income annually.

**Point Aconi Deferral** (*Effect on Net Earnings*)




## Allowance for Funds Used During Construction

Construction projects in the electrical utility industry often require capital to be committed over an extended number of years. Nova Scotia Power provides for the cost of capital invested in construction work in progress by including an allowance for funds used during construction (AFUDC) as an addition to the cost of property constructed. This amount represents non-cash income which will be charged to operations through depreciation over the service life of the related assets, and recovered through future revenues. The capitalization rate is based on Nova Scotia Power's weighted average cost-of-capital.

With the entry of Point Aconi into commercial service in March 1994, AFUDC decreased $8.3 million from 1994 levels to $1.3 million. AFUDC is expected to increase slightly in 1996, reflecting a small increase in the capital expenditure program.

## Income Taxes

In its April 29, 1994 budget, the Province of Nova Scotia eliminated Nova Scotia Power's exemption from provincial income taxes. Effective April 1, 1995, the Federal government eliminated the Public Utilities Income Tax Transfer Act (PUITTA) and increased the large corporations tax rate. Accordingly, Nova Scotia Power's effective tax rate for 1995, after consideration of the federal income tax rebate under PUITTA, is 4.4%, an increase from 1.1% in 1994. For 1995, Nova Scotia Power's capital cost allowance and cumulative eligible capital deductions eliminated its provincial and federal

income tax expense, with the exception of the large corporations tax and the Part VI.1 tax on preferred dividends.

The elimination of PUITTA and the increased large corporations tax rate will only result in a marginal increase in the Company's effective rate of income tax for 1996 and 1997 as Nova Scotia Power continues to claim capital cost allowance and cumulative eligible capital deductions to reduce income taxes payable, as well as the need for rate increases. However, it is expected that in 1998 there will be a substantial increase in income tax expense as a result of the loss of the provincial exemption and the elimination of PUITTA.

## Environmental Considerations

Nova Scotia Power is committed to conducting its business in a manner which is respectful and protective of the environment and which complies with environmental laws and regulations. Environmental management systems have been established to maintain and enhance environmental performance and verify compliance with environmental regulations. Nova Scotia Power is in material compliance with current environmental regulations.

Nova Scotia Power is subject to environmental regulation at both the federal and provincial levels. At the federal level, starting in January 1995, major projects are subject to the Canadian Environmental Assessment Act. Federal legislation also affects operations and the handling of by-products or waste.

On January 1, 1995, a new Nova Scotia Environment Act (Environment Act) came into effect. Most regulations under this new Environment Act are now in place. The Province regulates the environment by means of legislation requiring environmental assessments for construction and modification of generating stations and other facilities. The new statute itself does not require any immediate significant capital expenditures for Nova Scotia Power. Provincial legislation also requires environmental permits for generating stations. All required permits are in place for Nova Scotia Power's generating stations. During the period from 1995 to 2001, fifteen hydro generating stations will be undergoing re-licensing as required by the Nova Scotia Department of the Environment. Environmental assessments or permits may be required for the decommissioning of generating stations.

International bilateral and multilateral air quality agreements have the potential to influence both the present and future means of energy generation in Nova Scotia. In February 1988, the federal and provincial governments entered into the Canada-Nova Scotia Acid Rain Reduction Agreement which sets objectives for the reduction of emissions of sulphur dioxide. The Air Quality Regulations under the new Environment Act limit Nova Scotia Power's emissions of sulphur dioxide to no more than 145,000 tonnes per year beginning on January 1, 1995.

In 1990, Nova Scotia Power adopted a 20 year atmospheric emission management program to address sulphur dioxide and nitrogen oxide emissions. This program has as its cornerstone the circulating fluidized bed combustion technology installed at Point Aconi. During 1995, Point Aconi generated 7.4% of the total energy supplied by the Company. Compared to a conventional pulverized coal plant, Point Aconi is designed to achieve a 90% reduction in sulphur dioxide emissions and a 65% to 75% reduction in nitrogen oxide emissions. By allocating higher sulphur coal to Point Aconi, Nova Scotia Power expects to use lower sulphur coal at other coal-fired generating stations, resulting in reduced overall sulphur dioxide emissions. In 1993, sulphur dioxide emissions were 146,040 tonnes. This number fell to 132,765 tonnes in 1994, and totalled 133,950 tonnes in 1995. This leaves room for load growth while still meeting Nova Scotia Power's emissions commitment. The balance of the program involves the use of lower sulphur heavy fuel oil at the Tufts Cove generating station and low sulphur coal at the Trenton generating station.

Carbon dioxide emissions, which arise from the burning of all fossil fuels, such as coal and oil, also raise environmental concerns. Carbon dioxide is one of the heat-trapping greenhouse gases which may contribute to global warming. At present, there are no environmental regulations restricting carbon dioxide emissions.

The Government of Canada continues to pursue its objective to stabilize greenhouse gas emissions at 1990 levels by the year 2000 and to look for

opportunities to reduce emissions after the year 2000. In September 1995, Nova Scotia Power submitted its Voluntary Challenge and Registry Action Plan, for reduction of greenhouse gases, in response to a voluntary initiative championed by the Federal Minister of Natural Resources. The Federal Minister of the Environment has publicly announced support for the objective of reducing carbon dioxide emissions by 20% from 1988 levels by the year 2000. If this objective becomes law, it may have a material impact on Nova Scotia Power's operations.

## Risks and Uncertainties

Challenges for Nova Scotia Power over the next few years include increased income tax costs, lower growth in demand for electricity, and heightened competition, from both alternative energy sources and future deregulation of the electric energy industry. To prepare for these challenges, Nova Scotia Power is pursuing growth opportunities in both regulated and non-regulated areas and continues to manage its cost of operations to yield increased efficiencies.

The cost of Nova Scotia Power's single largest expense, fuel, is largely fixed by a long-term coal contract with Cape Breton Development Corporation, thereby mitigating price risk. Coal supply risk is considered minimal, and alternative fuel sources are available.

Nova Scotia Power does not have a significant risk related to foreign currency fluctuations, as all revenues and substantially all of its expenditures are transacted in Canadian funds.

Nova Scotia Power uses forward contracts and other financial instruments to protect against changes in U.S. dollar exchange, oil costs, and short-term interest rates. Based on the Company's credit ratings and past experience in public financing since privatization, Nova Scotia Power expects to have access to the capital markets when needed.

## Liquidity and Capital Resources:

### Cash Flow

During 1995, Nova Scotia Power's cash position was unchanged.

Nova Scotia Power's operating activities provided $197.1 million in cash.

Debt retirement and refinancing activities required $444.5 million during 1995. Net proceeds from the issuance of notes and common shares under the dividend reinvestment program contributed $610.3 million, while Nova Scotia Power's short-term debt program required an additional $176.3 million in cash. In total, financing activities required $25.6 million in cash during 1995.

Investing activities accounted for $88.0 million in cash as a result of property, plant and equipment additions of $90.7 million, net of a $2.7 million decrease in construction work in progress.

Dividend payments to common and preferred shareholders required $83.5 million.

### Capital Structure

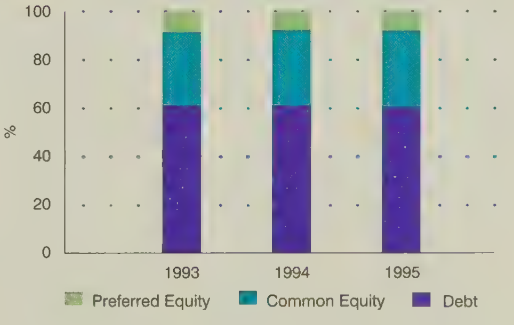
Nova Scotia Power's approved capital structure provides that common and preferred shares represent the following percentage of total capitalization:

| | Approved | Actual | |
|---|---|---|---|
| December 31 | | 1995 | 1994 |
| Common Shareholder Equity | 33% to 35% | 31% | 31% |
| Preferred Shareholder Equity | 8% to 10% | 7% | 8% |

Total capitalization is defined as the sum of common share equity, preferred share equity, long-term debt and short-term borrowing (excluding accounts payable).

This capital structure is comparable to that of other investor-owned Canadian electrical utilities. Nova Scotia Power recognized that, because of its defeasance program, it would take several years to attain the approved common shareholder equity ratio. Accordingly, this ratio should improve with the completion of the defeasance program.

### Debt/Equity Ratio



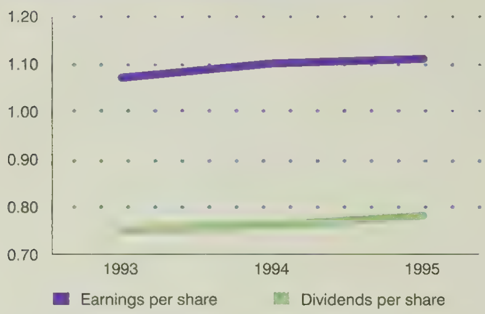

Nova Scotia Power's Dividend Reinvestment and Share Purchase Plan provides an opportunity for shareholders to reinvest dividends, or to make

optional cash payments, for the purpose of purchasing additional shares without brokerage commissions or service charges. During 1995, $2.5 million in new common equity was created through participation in the plan.

### Dividend Policy and Payout Ratios

For 1995, Nova Scotia Power's quarterly dividend rate was $0.195 per common share representing a payout ratio of 70% of 1995 net earnings applicable to common shares. On January 12, 1996, Nova Scotia Power approved a half cent increase in its 1996 first quarter common share dividend to $0.20.

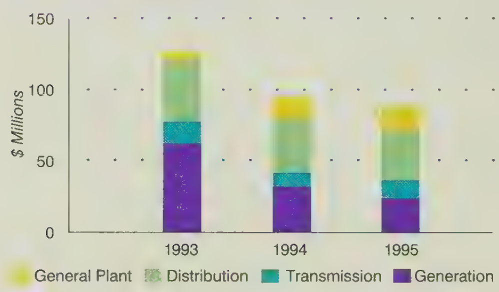
### Earnings and Dividends *($ per share)*




### Capital Expenditures

During 1995, net capital expenditures amounted to $88.0 million, as compared to $94.7 million in 1994.

### Capital Spending by Function




Nova Scotia Power expects annual capital expenditures to be approximately $100 million over the next few years, all of which will be financed from operating cash flow. These capital expenditures will be directed towards the improvement of the existing system and infrastructure, and the connection of new customers.

### Debt Refinancing

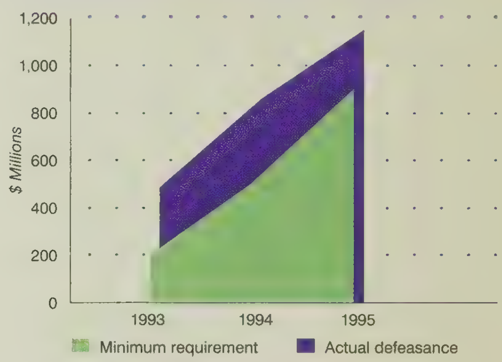
As a consequence of its 1992 privatization, Nova Scotia Power committed to refinance approximately $2.2 billion of provincial government guaranteed long-term debt. By December 31, 1997, Nova Scotia Power must refinance all debt presently guaranteed by the Province of Nova Scotia. With the reduction in capital expenditures, future borrowing will be directed primarily to refinancing this obligation.

| *millions* | | |
|---|---|---|
| Total Guaranteed Debt - August, 1992 (at December 31,1995 exchange rates) | | $2,232.1 |
| Refinanced to December 31, 1995: | | |
| Maturities, redemptions and purchases | 494.7 | |
| Defeasance | 1,137.7 | 1,632.4 |
| Remainder to be refinanced by December 31, 1997 | | $599.7 |

The remaining $599.7 million will be refinanced through a $296.9 million defeasance program and $302.8 million in maturities, redemptions and purchases. As at December 31, 1995, $26.3 million of defeasible assets were available to assist in the defeasance program.

With these transactions, 79% of the total defeasance requirement will have been completed. This satisfies Nova Scotia Power's 1995 cumulative contractual requirements with the Province. While Nova Scotia Power would be liable for any shortfalls in the defeasance portfolio, there is very minimal risk of loss associated with the defeasance investments, as each issue in the defeasance portfolio must match principal and interest streams, and all defeasance investments are government guaranteed.

### Cumulative Debt Defeasance Progress




### Debt Management

Nova Scotia Power has established the following short-term credit facilities:

- $300 million commercial paper program secured with a 100% backup line of credit;
- $300 million syndicated bank line of credit;
- $75 million operating line of credit.

During 1995, Nova Scotia Power took advantage of favourable short-term interest rates by using short-term borrowing to fund working capital, defeasance transactions and bridge financing requirements. This was largely accomplished

through the use of the commercial paper program, and through the syndicated bank lines of credit. Working capital and bridge financing requirements will continue to be met through the use of short-term borrowing.

Nova Scotia Power filed a shelf prospectus in September 1995 to qualify for the issue of $850 million debt securities to the public. The debt securities may be in the form of long-term debt and medium-term notes and are available as and when funds are required by Nova Scotia Power during the program's two year life. In addition to reducing issuance costs, the medium-term note program provides flexibility in setting the term, interest payment type and size of the debt issue. Nova Scotia Power issued seven notes with 19 tranches totalling $600 million in 1995. The net proceeds from these issues were used to refinance debt guaranteed by the Province of Nova Scotia and interim bank indebtedness incurred in effecting such refinancing.

Foreign denominated debt was reduced by 33% in 1995 (from $120 million (U.S.) to $80 million (U.S.)) through purchases totalling $40 million (U.S.). Matching notes receivable from the Nova Scotia Power Finance Corporation of $38 million (U.S.) remain to fund future debt retirements.

The weighted average coupon rate on Nova Scotia Power's long-term debt held at December 31, 1995, was 8.74%. This debt matures over the next 30 years as shown in Note 9 to the financial statements. The December 31, 1995 quoted market weighted average interest rates for the same or similar issues of the same remaining maturities was 7.33%.

Long-term debt is shown net of matching notes receivable of $325.8 million (1994 - $368.0 million). As Nova Scotia Power does not have a legal right of set-off, beginning in 1996, Nova Scotia Power will record matching notes receivable separately as assets on the balance sheet. This is in accordance with new recommendations issued by the Canadian Institute of Chartered Accountants. The balance of matching notes receivable will be eliminated upon completion of the defeasance program in 1997.

### Credit Ratings

Nova Scotia Power has the following confirmed credit ratings:

| | Dominion Bond Rating Services | Canadian Bond Rating Services |
|---|---|---|
| Senior Long Term-Debt | A (low) | A (Low) |
| Senior Preferred Shares | Pfd-2 | P-2 (Low) |
| Commercial Paper | R-1 (low) | A-1 |

Based on these ratings, and its experience in public financing since privatization, Nova Scotia Power expects to have access to the capital markets when needed.

## Outlook for Nova Scotia Power

The success of Nova Scotia Power is closely linked to the prosperity of the Nova Scotian economy. In light of 1996 projected provincial Gross Domestic Product growth of only 1.5%, the Company is forecasting a modest increase in sales volume for 1996. In addition to a sluggish economy, Nova Scotia Power faces increased competition from alternative energy suppliers.

Nova Scotia Power is entering 1996 in a strong financial position. The satisfactory negotiation of Nova Scotia Power's major coal contract will result in fuel cost savings over the next few years. The 1995 reorganization will provide reductions in operating, maintenance and general expenses. Nova Scotia Power's focus on improved customer service and cost reduction will continue. Marketing plans for 1996 will focus on delivering value to retain our existing customers, and working with strategic partners to introduce new, competitive electric technologies to increase electric revenues. Revenue opportunities will be explored through new business ventures, including the development of a recently formed integrated energy services company which designs, develops, installs and invests in cost effective energy projects for industrial, commercial, and institutional customers. Nova Scotia Power is also investigating opportunities to reduce fuel costs through development of methane reserves in the Stellarton Basin of Nova Scotia. Coal-bed methane would provide an alternate clean-burning and efficient source of electric power.

## Management Report

### Management's Responsibility for Financial Reporting

The accompanying financial statements of Nova Scotia Power Inc. and the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Nova Scotia Power Inc. is regulated by the Nova Scotia Utility and Review Board, which also examines and approves its accounting policies and practices. In preparation of these statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management believes that such estimates, which have been properly reflected in the accompanying financial statements, are based on careful judgements and are within reasonable limits of materiality. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Nova Scotia Power Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that Nova Scotia Power Inc.'s assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are directors who are not officers or employees of Nova Scotia Power Inc. The Committee meets periodically with management, as well as with the internal auditors and with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

February 5, 1996

Louis

Chief Executive Officer

Gary K Ouelle

Chief Financial Officer

## Auditors' Report

**To the Shareholders of Nova Scotia Power Inc.**

We have audited the balance sheet of Nova Scotia Power Inc. as at December 31, 1995 and 1994, and the statements of earnings, retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Halifax, Canada
February 5, 1996

Chartered Accountants

## Statement of Earnings

*millions of dollars (except earnings per common share)*

| Year ended December 31 | 1995 | 1994 |
|---|---|---|
| Revenue | | |
| Electric (note 1a) | $711.7 | $707.9 |
| Other | 8.9 | 7.7 |
| | 720.6 | 715.6 |
| Cost of operations | | |
| Fuel for generation and power purchased | 244.8 | 246.6 |
| Operating, maintenance and general | 147.7 | 151.3 |
| Grants in lieu of property taxes | 5.2 | 5.1 |
| Depreciation | 86.5 | 83.1 |
| | 484.2 | 486.1 |
| | 236.4 | 229.5 |
| Deferral of Point Aconi expenses (note 1b) | 22.6 | 24.9 |
| Allowance for funds used during construction (note 1c) | 1.3 | 9.6 |
| Earnings before interest and income taxes | 260.3 | 264.0 |
| Interest (note 3) | 143.5 | 152.2 |
| Earnings before income taxes | 116.8 | 111.8 |
| Income taxes (note 4) | 5.2 | 1.0 |
| Net earnings before dividends | 111.6 | 110.8 |
| Preferred dividends (note 4) | 16.8 | 16.8 |
| Net earnings applicable to common shares | 94.8 | 94.0 |
| Common dividends | 66.7 | 64.8 |
| Earnings retained for use in Company | $28.1 | $29.2 |
| Earnings per common share | $1.11 | $1.10 |

*See accompanying notes to the financial statements.*

## Statement of Retained Earnings

*millions of dollars*

| Year Ended December 31 | 1995 | 1994 |
|---|---|---|
| Retained earnings at beginning of year | $152.2 | $123.0 |
| Net earnings before dividends | 111.6 | 110.8 |
| | 263.8 | 233.8 |
| Dividends | | |
| Common | 66.7 | 64.8 |
| Preferred (note 4) | 16.8 | 16.8 |
| | 83.5 | 81.6 |
| Retained earnings at end of year | $180.3 | $152.2 |

*See accompanying notes to the financial statements.*

## Balance Sheet

*millions of dollars*

| As at December 31 | 1995 | 1994 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment (notes 1d and 5) | $2,259.4 | $2,255.2 |
| Construction work in progress | 17.7 | 20.4 |
| | 2,277.1 | 2,275.6 |
| Current assets | | |
| Cash | 0.1 | 0.1 |
| Accounts receivable | 63.9 | 78.9 |
| Unbilled revenue (note 1a) | 54.7 | 53.4 |
| Federal taxes receivable | 1.8 | 5.0 |
| Inventory (note 1f) | 65.1 | 75.5 |
| | 185.6 | 212.9 |
| Deferred charges (note 6) | 355.5 | 272.1 |
| | $2,818.2 | $2,760.6 |
| **Shareholders' Equity and Liabilities** | | |
| Shareholders' equity | | |
| Common | | |
| Shares (note 7) | $655.9 | $653.4 |
| Retained earnings | 180.3 | 152.2 |
| | 836.2 | 805.6 |
| Preferred shares (note 8) | 200.0 | 200.0 |
| | 1,036.2 | 1,005.6 |
| Long-term debt (note 9) | 1,314.4 | 1,101.2 |
| Current liabilities | | |
| Debt due within one year (note 10) | 324.3 | 511.3 |
| Accounts payable and accrued charges | 86.1 | 80.6 |
| Dividends payable | 3.0 | 3.0 |
| Income taxes payable | 1.2 | 4.7 |
| Accrued interest on long-term debt | 38.3 | 38.2 |
| | 452.9 | 637.8 |
| Deferred Credits | 14.7 | 16.0 |
| | $2,818.2 | $2,760.6 |

*See accompanying notes to the financial statements.*
*Commitments (note 13)*

*Approved on behalf of the Board of Directors*

*Chairman*

*President and Chief Executive Officer*

## Statement of Changes in Cash Position

| *millions of dollars* | | |
|---|---|---|
| Year ended December 31 | 1995 | 1994 |
| Operating activities: | | |
| Net earnings before dividends | $111.6 | $110.8 |
| Non-cash items: | | |
| Depreciation | 86.5 | 83.1 |
| Amortization of deferred charges | 20.5 | 11.3 |
| Deferral of Point Aconi expenses | (22.6) | (24.9) |
| Deferral of severance costs | (27.0) | – |
| Change in operating working capital | 28.1 | 20.8 |
| Net cash provided by operating activities | 197.1 | 201.1 |
| Financing activities: | | |
| Proceeds from issue of common shares, net | 2.5 | 2.7 |
| Proceeds from long-term debt, net | 607.8 | 210.4 |
| Repayment of long-term debt | (444.5) | – |
| Increase (decrease) in foreign exchange on long-term debt | (3.0) | 9.5 |
| Increase in deferred charges | (54.3) | (77.7) |
| Increase (decrease) in short-term debt | (176.3) | 193.6 |
| Investments committed to effect defeasance | – | (377.0) |
| Net changes in matching notes receivable (sinking funds) | 42.2 | 11.5 |
| Net cash used in financing activities | (25.6) | (27.0) |
| Investing activities: | | |
| Property, plant and equipment, net | (90.7) | (531.2) |
| Construction work in progress, net | 2.7 | 436.5 |
| Net cash used in investing activities | (88.0) | (94.7) |
| Dividends: | | |
| Common shares | (66.7) | (64.8) |
| Preferred shares | (16.8) | (16.8) |
| | (83.5) | (81.6) |
| Decrease in cash position | 0.0 | (2.2) |
| Cash position at beginning of year | 0.1 | 2.3 |
| Cash position at end of year | $0.1 | $0.1 |

*See accompanying notes to the financial statements.*

# Notes to the Financial Statements

*December 31, 1995*

Nova Scotia Power Inc. (NSPI) is engaged in the production and sale of electric energy, and is regulated by the Nova Scotia Utility and Review Board (UARB). NSPI's accounting policies and practices are subject to examination and approval by the UARB and are similar to those being used by other companies in the electric utility industry.

### Privatization

In 1992, the business of Nova Scotia Power Corporation (NSPC) was privatized. In effecting this, NSPC transferred all of its existing assets, liabilities and retained earnings (except for long-term debt and sinking fund assets) to NSPI in exchange for matching notes receivable equivalent to outstanding long-term debt (net of matching notes payable equivalent to sinking fund assets) and 20.1 million fully paid common shares of NSPI.

Subsequent to the privatization, the business activities of NSPC continued under NSPI. NSPC changed its name to Nova Scotia Power Finance Corporation (NSPF) and continues to hold the long-term debt and sinking fund assets.

### 1. Summary of Significant Accounting Policies

*a. Revenue Recognition*

Revenues are recognized on the accrual basis, which includes an estimate of the value of electricity consumed by customers in the year but billed subsequent to year end.

*b. Deferral of Point Aconi Expenses*

The Point Aconi generating station became operational in March 1994. To enhance rate stability, the UARB approved the Company's request to defer a portion of the depreciation and interest expense pertaining to Point Aconi, together with an imputed cost-of-capital charge, at a rate of 50% in 1994 and 33⅓% in 1995. The deferred amount will be amortized to earnings annually beginning in 1996, and continuing through 1998.

*c. Allowance for Funds Used During Construction*

Construction projects in the electric utility industry often require capital to be committed over an extended number of years. NSPI provides for the cost-of-capital invested in construction work in progress by including an allowance for funds used during construction as an addition to the cost of property constructed, using a weighted average cost-of-capital. This amount represents non-cash income which will be charged to operations through depreciation over the service life of the related assets and recovered through future revenues.

*d. Property, Plant and Equipment*

Property, plant and equipment are recorded at original cost net of contributions in aid of construction. Expenditures for additions, replacements and improvements, which are comprised of direct labour, material, engineering, and related overhead costs, are capitalized whereas repairs and maintenance are charged to operations. When property, plant and equipment is replaced or renewed, the original cost plus any removal costs incurred, net of salvage, are charged to accumulated depreciation.

Depreciation is provided on the straight-line method, based on the estimated remaining service lives of the depreciable assets. The estimated average service lives and average depreciation rates for the major categories of plant in service are summarized as follows:

| Functions | Average Service Life in Years | Average Depreciation Rate |
|---|---|---|
| Generation: | | |
| Thermal | 42.4 | 2.33% |
| Gas turbine | 33.9 | 2.04% |
| Hydroelectric | 77.4 | 1.18% |
| Transmission | 45.4 | 2.71% |
| Distribution | 31.2 | 3.82% |
| General plant | 15.4 | 5.28% |

The estimated service lives of depreciable assets and the significant assumptions underlying the estimates of removal costs are subject to periodic review by the UARB. Provisions for future removal and site restoration costs are amortized to depreciation expense over the life of the related assets. As at December 31, 1995, the Company had recorded an estimated liability for future removal and site restoration costs of $11.7 million (1994 – $9.8 million).

In accordance with regulatory authority, assets which are not currently being used, but will be useful in providing service to future customers, are not depreciated. Depreciation will resume when the asset returns to service. Costs of maintaining the asset while out of service are expensed as incurred. Significant costs in removing the asset from service are deferred and amortized to earnings over a five year period. Significant costs to return the asset to service are added to the capital cost of the asset.

*e. Income Taxes*

Income taxes are provided on earnings using the taxes payable method. Accordingly, NSPI does not provide for deferred taxes.

*f. Inventory*

Inventory is valued at the lower of cost and replacement value.

*g. Deferred Severance Costs*

Costs incurred as a result of a large severance program (where total cost exceeds 0.25% of revenue requirements) are deferred and amortized on a straight-line basis over a three year period, including the period in which the program is initiated. This accounting policy enhances rate stability, which follows generally accepted practice in rate-regulated utilities, and is in accordance with UARB approval.

The costs deferred include all expenses incurred to complete the severance program such as employee severance amounts, additional pension costs or benefits, retirement awards, other allowances, counselling, consulting fees, actuarial and legal costs, and relocation costs directly attributable to the severance program.

*h. Pensions*

Pension costs are actuarially determined using the projected benefit method prorated on services and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, and changes in actuarial assumptions are amortized on a straight-line basis over the remaining working years of the employees. Pension fund asset values are calculated using market values at year-end. The difference between pension expense and pension funding is recorded as a deferred asset or credit.

*i. Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting differences between the translation at the original transaction date and the balance sheet date that relate to long-term debt, less matching notes receivable, are recorded as deferred charges or credits, and amortized over the remaining life of the related debt issue. Other exchange differences are charged to operations as they arise.

Non-monetary items are translated to Canadian dollars at historical exchange rates.

Revenue and expenses are converted at rates of exchange in effect at the date of the transaction.

*j. Debt Financing and Defeasance Costs*

Financing costs pertaining to debt issues are amortized over the life of the related debt. The excess cost of defeasance investments over the face value of the related debt is deferred and amortized over the life of the defeased debt.

*k. Hedging Instruments*

NSPI is party to a number of derivative financial instrument contracts, mainly interest rate contracts, forward foreign exchange contracts and oil swap agreements, all of which are used to manage risks. The differential to be paid or received is accrued as rates and prices change and is recognized over the life of the agreements. Premiums paid are deferred and recognized over the life of the agreements.

## 2. Change in Accounting Policy

During 1995, NSPI completed a reorganization resulting in a reduction in its workforce of 276 employees. NSPI has recorded the severance costs related to the reorganization as a deferred asset which will be amortized to earnings on a straight-line basis over three years beginning in 1995. In 1993, the costs of the voluntary separation program were expensed in that year. The new method of accounting for severance costs has been approved by the UARB, to enhance rate stability. Management expects that NSPI will be able to recover deferred severance costs in the future through the rate-making process. This change in accounting policy has been applied prospectively. The total cost of the program was $27 million, $3.8 million of which was amortized to earnings during 1995.

### 3. Interest

*millions of dollars*

| | 1995 | 1994 |
|---|---|---|
| Interest on long-term debt | $146.5 | $153.8 |
| Amortization of debt financing and defeasance costs | 16.7 | 11.3 |
| Interest on short-term debt | 25.6 | 20.7 |
| Foreign exchange costs | 3.6 | 6.7 |
| | 192.4 | 192.5 |
| Less: | | |
| Matching notes receivable (sinking funds) earnings | 48.9 | 40.3 |
| | $143.5 | $152.2 |

### 4. Income Taxes

In its April 29, 1994 budget, the Province of Nova Scotia eliminated NSPI's exemption from provincial income taxes, raising the Company's effective income tax rate from 1.1% to 4.4%. In the February 27, 1995 federal budget, the federal government eliminated the Public Utilities Income Tax Transfer Act (PUITTA) effective April 1, 1995. The Company has claimed sufficient capital cost allowance and cumulative eligible capital deductions to eliminate its 1995 provincial and federal income tax expense, with the exception of large corporations tax and the Part VI.1 tax on preferred dividends.

Under PUITTA and the Privatization Act, an estimated 21.0% (1994 – 85.5%) of the 1995 federal income and large corporations tax paid by NSPI in respect of its electric utility operations will be rebated by the federal government to the Province of Nova Scotia and by the Province to NSPI. The total dollar amount of annual rebates to all utilities from the federal government was frozen at the total level of rebates granted in the federal government's 1989-90 fiscal period. If the total amount eligible for rebate exceeds the 1989-90 level, the actual rebated portion would fall below the estimated 21.0%. NSPI expects the rebate for its 1995 fiscal year to be at this level.

| | 1995 | 1994 |
|---|---|---|
| | Percent of Income | Percent of Income |
| Statutory income tax | 45.1% | 44.8% |
| Large corporations tax | 5.6 | 6.5 |
| Less: PUITTA | (1.2) | (5.4) |
| Excess depreciation for tax purposes | (45.1) | (44.8) |
| Effective income tax rate | 4.4% | 1.1% |

Preferred dividends include Part VI.1 tax of $4.8 million (1994 - $4.8 million).

At December 31, 1995, the tax value of the Company's assets exceeded the related carrying value by approximately $754 million (1994 - $893 million). The Company also has non-capital loss carry forwards of approximately $79 million: $46 million expiring in 2001 and $33 million expiring in 2002. In accordance with the taxes payable accounting method the Company has not recorded the potential tax benefits related to these amounts in its financial statements. Such potential benefits will be recognized as realized for income tax purposes.

## 5. Property, Plant and Equipment

*millions of dollars*

| | 1995 | | |
|---|---|---|---|
| | Property, Plant and Equipment | Accumulated Depreciation | Net Book Value |
| Generation | | | |
| Thermal | $1,429.6 | $362.0 | $1,067.6 |
| Gas turbine | 26.3 | 17.7 | 8.6 |
| Hydroelectric | 286.9 | 91.7 | 195.2 |
| Transmission | 509.3 | 154.3 | 355.0 |
| Distribution | 744.1 | 239.1 | 505.0 |
| General plant | 169.1 | 41.1 | 128.0 |
| | $3,165.3 | $905.9 | $2,259.4 |

*Thermal Generation includes the Glace Bay generating station at a net book value of $21.7 million. The plant was not depreciated in 1995 as it was removed from service (note 1d).*

| | 1994 | | |
|---|---|---|---|
| | Property, Plant and Equipment | Accumulated Depreciation | Net Book Value |
| Generation | | | |
| Thermal | $1,415.2 | $328.1 | $1,087.1 |
| Gas turbine | 26.2 | 17.2 | 9.0 |
| Hydroelectric | 277.0 | 88.4 | 188.6 |
| Transmission | 500.1 | 142.6 | 357.5 |
| Distribution | 715.5 | 218.6 | 496.9 |
| General plant | 161.2 | 45.1 | 116.1 |
| | $3,095.2 | $840.0 | $2,255.2 |

## 6. Deferred Charges

*millions of dollars*

| | 1995 | 1994 |
|---|---|---|
| Unamortized debt financing and defeasance costs | $255.4 | $203.8 |
| Unamortized foreign exchange costs | 8.8 | 25.9 |
| Unamortized Point Aconi expenses | 47.5 | 24.9 |
| Unamortized severance costs | 23.3 | – |
| Other | 20.5 | 17.5 |
| | $355.5 | $272.1 |

## 7. Common Shares

*millions of dollars*

*Authorized:*
Unlimited number of non-par value Common Shares.

*Issued and outstanding:*

| | Millions of Shares | Common Share Capital |
|---|---|---|
| *December 31, 1993* | 85.2 | $650.7 |
| Issued for cash under the Dividend Reinvestment Plan in 1994 | 0.2 | 2.7 |
| *December 31, 1994* | 85.4 | 653.4 |
| Issued for cash under the Dividend Reinvestment Plan in 1995 | 0.2 | 2.5 |
| December 31, 1995 | 85.6 | $655.9 |

*Dividend Reinvestment*

The Company has a Common Shareholder Dividend Reinvestment Plan under which common shareholders are entitled to acquire common shares through the reinvestment of dividends.

*Stock Options*

The Company has options outstanding to certain officers of NSPI to purchase common shares as follows:

| | 1995 | 1994 |
|---|---|---|
| Options issued | 130,000 | 90,000 |
| Option price per share | $11.38 | $11.25 |
| Date of grant | February 8, 1995 | July 6, 1994 |

*The options expire ten years after the date of grant.*

## 8. Preferred Shares

*millions of dollars*

*Authorized:*
Unlimited number of First Preferred Shares, issuable in series.
Unlimited number of Second Preferred Shares, issuable in series.

*Issued and outstanding:*

| | Millions of Shares | Preferred Share Capital |
|---|---|---|
| 6% Cumulative, Redeemable Series A First Preferred Shares | 8.0 | $200.0 |

*The preferred shares are redeemable at $25 per share.*

## 9. Long-term Debt

*millions of dollars*

| | 1995 | 1994 |
|---|---|---|
| Matching notes payable | $273.8 | $673.8 |
| Debentures and notes payable | 1,113.7 | 511.2 |
| | 1,387.5 | 1,185.0 |
| Less: Payable within one year | (73.1) | (83.8) |
| | $1,314.4 | $1,101.2 |

All debt instruments are issued under trust indentures at fixed interest rates, and are unsecured.

As part of the 1992 privatization of NSPI, the Company issued matching notes payable to Nova Scotia Power Finance Corporation (NSPF) in the principal amount of, and with substantially the same terms as, the long-term debt owed by NSPF.

Upon privatization, NSPI and NSPF committed, subject to certain conditions, to eliminate NSPF's long-term debt and NSPI's matching notes through repayment and defeasance of the matching notes by December 31, 1997. Defeasance requires qualifying assets to be set aside by the debtor to be used solely for satisfying scheduled payments of principal and interest of a specific obligation whereby the possibility that the debtor will be required to make future payments on that debt is remote. As the original NSPF debt is defeased, both the liability and the related qualifying assets are removed from NSPI's balance sheet.

As of December 31, 1995, $1,137.7 million (1994 - $859.8 million) of the total defeasance requirement has been met, which completes all of the 1995 cumulative requirement, and the majority of the 1996 cumulative requirement. As at December 31, 1995, $26.3 million of defeasible assets were available to assist in the defeasance program. The remaining $297 million of the approximately $1,435 million cumulative requirement must be defeased by 1997.

Long-term debt is summarized by year of maturity and the currency in which it is payable in the following table:

| *millions of dollars* | December 31, 1995 | | | | December 31, 1994 | |
|---|---|---|---|---|---|---|
| Years of Maturity | Principal Outstanding | | | Weighted Average Coupon Rate | Principal Outstanding | Weighted Average Coupon Rate |
| | Canadian | U.S. | Total | % | Total | % |
| 1995 | | | | | $153.0 | |
| 1996 | $73.1 | $ – | $73.1 | | 72.6 | |
| 1997 | 380.8 | | 380.8 | | 280.2 | |
| 1998 | 150.5 | | 150.5 | | 150.0 | |
| 1999 | 164.0 | | 164.0 | | 61.2 | |
| 2000 | 3.0 | | 3.0 | | – | |
| 1-5 Years | 771.4 | | 771.4 | 8.33 | 717.0 | 9.03 |
| 6-10 Years | 420.0 | | 420.0 | 7.97 | 150.0 | 7.70 |
| 11-15 Years | 187.0 | | 187.0 | 11.25 | 72.0 | 12.13 |
| 16-20 Years | 33.0 | | 33.0 | 8.40 | 345.0 | 11.09 |
| 21-25 Years | 95.0 | | 95.0 | 9.75 | 100.0 | 9.75 |
| 26-30 Years | 97.0 | 109.9 | 206.9 | 9.14 | 169.0 | 9.40 |
| | 1,603.4 | 109.9 | 1,713.3 | 8.74 | 1,553.0 | 9.59 |
| Less: Matching notes receivable (sinking funds) | 273.5 | 52.3 | 325.8 | | 368.0 | |
| | $1,329.9 | $57.6 | $1,387.5 | | $1,185.0 | |

Long-term maturities, net of sinking funds, during the next five years, excluding any defeasance requirement, are as follows:

*millions of dollars*

| Year Ending December 31 | Long-term Maturities |
|---|---|
| 1996 | $73.1 |
| 1997 | 103.9 |
| 1998 | 150.5 |
| 1999 | 164.0 |
| 2000 | 3.0 |
| | $494.5 |

## 10. Debt Due Within One Year

*millions of dollars*

Debt due within one year is normally refinanced from the proceeds of longer-term financing.

| | 1995 | 1994 |
|---|---|---|
| Short-term debt | $251.2 | $427.5 |
| Current portion of long-term debt (note 9) | 73.1 | 83.8 |
| | $324.3 | $511.3 |

## 11. Pension Plans

NSPI maintains contributory defined benefit pension plans that cover substantially all employees. The market value of pension fund assets at December 31, 1995 is $274.9 million (1994 – $242.2 million). The estimated actuarial present value of accrued pension benefits attributed to services rendered to December 31, 1995 is $271.6 million (1994 – $260.1 million).

## 12. Financial Instruments

| *millions of dollars* | December 31, 1995 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Long-term debt | ($1,713.3) | ($1,851.5) |
| Matching notes receivable (sinking funds) | $325.8 | $340.0 |
| Debt due within one year | ($324.3) | ($324.3) |
| Hedging instruments | $0.5 | $1.6 |

*Long-term Debt and Debt Due Within One Year*

The fair value of NSPI's long-term debt and debt due within one year is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to NSPI, for debt of the same remaining maturities.

*Matching Notes Receivable (Sinking Funds)*

The fair value of matching notes receivable (sinking funds) is estimated based on publicly quoted current values for the underlying sinking fund assets.

*Hedging Instruments*

The fair value of hedging instruments is estimated by obtaining prevailing market rates from investment dealers.

NSPI is exposed to credit-related losses in the event of non-performance of counterparties to financial instruments, but expects counterparties to meet their obligations.

NSPI has only limited involvement with derivative instruments and does not use them for trading purposes. They are used to manage well-defined interest rate, foreign exchange and commodity price risks.

- NSPI uses forward foreign exchange contracts to hedge the Company's exposure to fluctuations in foreign exchange rates.
  At December 31,1995, NSPI had forward foreign currency contracts covering $21 million U.S. (1994 – $6 million) at an average exchange rate of 1.3528 (1994 – 1.3564).
- NSPI enters into interest rate contracts to modify the interest characteristics of outstanding debt from floating to a fixed rate basis.
  Interest rate contracts limiting short-term interest on average borrowings of $124 million (1994 – $150 million) to a weighted average interest rate of 6.97% (1994 – 7.64%) were outstanding at December 31, 1995.
- The Company enters into forward foreign exchange contracts and oil swap agreements to hedge future purchases of oil under existing firm purchase commitments.
  At December 31, 1995, NSPI had a fixed price purchase agreement for 75% of its estimated heavy fuel oil requirements for 1996. Accordingly, the use of oil swap agreements in 1996 will be minimal.

## 13. Commitments

NSPI has the following significant commitments at December 31, 1995:

- Minimum coal purchase requirements over the next four years are as follows:
  *1996* $144.0 million *1998* $128.4 million
  *1997* $137.4 million *1999* $113.6 million
- Annual requirement to purchase approximately $13 million of electricity from independent power producers over the next five years.
- Agreement to purchase $13.8 million of heavy fuel oil during 1996.

## 14. Comparative Information

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 1995.

## Operating Statistics

### Five Year Summary

| | Years Ended December 31 | | | | Year Ended March 31 |
|---|---|---|---|---|---|
| | 1995 | 1994 | 1993 | 1992* | 1992 |
| Electric energy sales *(millions of kWh)* | | | | | |
| Residential | 3,380.3 | 3,445.3 | 3,400.3 | 3,418.9 | 3,332.1 |
| Commercial | 2,483.9 | 2,455.4 | 2,440.1 | 2,410.9 | 2,369.3 |
| Industrial | 2,820.9 | 2,715.0 | 2,706.3 | 2,624.6 | 2,636.8 |
| Other | 349.7 | 350.2 | 347.4 | 347.5 | 343.0 |
| Total electric energy sales | 9,034.8 | 8,965.9 | 8,894.1 | 8,801.9 | 8,681.2 |
| Sources of energy *(millions of kWh)* | | | | | |
| Thermal - coal | 7,053.1 | 7,159.7 | 6,345.6 | 5,994.0 | 6,110.1 |
| - oil | 1,239.4 | 1,205.7 | 2,117.2 | 2,469.5 | 2,184.6 |
| Hydro | 883.2 | 1,012.0 | 877.6 | 875.0 | 1,019.1 |
| Purchases | 499.5 | 216.2 | 218.9 | 194.7 | 136.4 |
| Total generation and purchases | 9,675.2 | 9,593.6 | 9,559.3 | 9,533.2 | 9,450.2 |
| Losses and internal use | 640.4 | 627.7 | 665.2 | 731.3 | 769.0 |
| Total electric energy sold | 9,034.8 | 8,965.9 | 8,894.1 | 8,801.9 | 8,681.2 |
| Customers | | | | | |
| Residential | 380,055 | 375,553 | 371,270 | 365,672 | 361,461 |
| Commercial | 32,383 | 32,342 | 32,289 | 31,143 | 32,204 |
| Industrial | 1,633 | 1,581 | 1,537 | 1,533 | 1,501 |
| Other | 5,892 | 5,731 | 5,596 | 5,518 | 5,460 |
| Total customers | 419,963 | 415,207 | 410,692 | 404,866 | 400,626 |
| Generating nameplate capacity (MW) | 2,299 | 2,299 | 2,129 | 2,129 | 2,129 |
| Number of employees | 1,935 | 2,181 | 2,213 | 2,437 | 2,435 |
| km of transmission lines (69 kV and over) | 5,212 | 5,208 | 5,339 | 5,114 | 5,099 |
| km of distribution lines (25 kV and under) | 23,226 | 24,362 | 24,344 | 24,512 | 24,001 |

**For the purpose of illustrating the twelve months ended December 31, 1992, the last three months of NSPC's fiscal year ended March 31, 1992 were combined with the nine month period ended December 31, 1992.*

# Financial Information

## 1992 - 1995 Summary

| Years ended December 31 *(millions of dollars)* | 1995 | 1994 | 1993 | 1992* |
|---|---|---|---|---|
| Total revenue | $720.6 | $715.6 | $709.1 | $695.4 |
| Cost of operations | | | | |
| Fuel for generation and power purchased | 244.8 | 246.6 | 246.7 | 244.5 |
| Operating, maintenance and general | 147.7 | 151.3 | 150.5 | 156.0 |
| Grants in lieu of property taxes | 5.2 | 5.1 | 5.0 | 3.7 |
| Voluntary separation program | – | – | 21.7 | – |
| Depreciation | 86.5 | 83.1 | 70.6 | 79.4 |
| | 484.2 | 486.1 | 494.5 | 483.6 |
| | 236.4 | 229.5 | 214.6 | 211.8 |
| Deferral of Point Aconi expenses | 22.6 | 24.9 | – | – |
| Allowance for funds used during construction | 1.3 | 9.6 | 46.1 | 40.8 |
| Earnings before interest and income taxes | 260.3 | 264.0 | 260.7 | 252.6 |
| Interest | 143.5 | 152.2 | 160.5 | 190.4 |
| Earnings before income taxes | 116.8 | 111.8 | 100.2 | 62.2 |
| Income taxes | 5.2 | 1.0 | 4.8 | 0.6 |
| Net earnings before dividends | 111.6 | 110.8 | 95.4 | 61.6 |
| Preferred dividends | 16.8 | 16.8 | 3.9 | – |
| Net earnings applicable to common shares | 94.8 | 94.0 | 91.5 | 61.6 |
| Common dividends | 66.7 | 64.8 | 63.9 | 16.0 |
| Earnings retained for use in Company | $28.1 | $29.2 | $27.6 | $45.6 |
| | | | | |
| Property, plant and equipment, net | $2,277.1 | $2,275.6 | $2,264.0 | $2,208.7 |
| Deferred charges | 355.5 | 272.1 | 180.8 | 90.9 |
| Current assets | 185.6 | 212.9 | 234.2 | 201.1 |
| Total assets | $2,818.2 | $2,760.6 | $2,679.0 | $2,500.7 |
| | | | | |
| Common shares | $655.9 | $653.4 | $650.7 | $650.0 |
| Retained earnings | 180.3 | 152.2 | 123.0 | 99.1 |
| Preferred shares | 200.0 | 200.0 | 200.0 | – |
| Long-term debt | 1,314.4 | 1,101.2 | 1,299.7 | 1,537.7 |
| Deferred credits | 14.7 | 16.0 | 16.0 | – |
| Current liabilities | 452.9 | 637.8 | 389.6 | 213.9 |
| Total equity and liabilities | $2,818.2 | $2,760.6 | $2,679.0 | $2,500.7 |
| | | | | |
| Capital expenditures | $88.0 | $94.7 | $125.9 | $263.6 |
| | | | | |
| Cost of fuel - coal | $189.5 | $204.4 | $179.6 | $173.3 |
| - oil | 39.0 | 35.2 | 60.5 | 65.2 |
| Power purchased | 16.3 | 7.0 | 6.6 | 6.0 |
| Total cost of fuel and power purchased | $244.8 | $246.6 | $246.7 | $244.5 |

**For the purpose of illustrating the twelve months ended December 31, 1992, the last three months of NSPC's fiscal year ended March 31, 1992 were combined with the nine month period ended December 31, 1992. On August 10, 1992, Nova Scotia Power Inc. acquired the operating assets of Nova Scotia Power Corporation, a Crown Corporation which had generated, transmitted and distributed electricity in Nova Scotia since 1919.*

## Statement of Corporate Governance Practices

Nova Scotia Power's governance framework was established in 1992, upon privatization. This framework has allowed Nova Scotia Power to meet evolving corporate governance expectations of the Canadian investment community.

### Board Mandate

The Board of Directors is responsible for management of the business and affairs of Nova Scotia Power. It carries out these responsibilities through the delegation of authority to the management of Nova Scotia Power. The Board of Directors has established a number of committees to assist it in fulfilling its responsibilities.

The Board expects the President and Chief Executive Officer and Nova Scotia Power's other officers to manage all aspects of Nova Scotia Power's business and affairs, to achieve established objectives, and evaluates their performance accordingly. Management's discussion and analysis of Nova Scotia Power's operating performance for 1995 is included in this Annual Report.

### Board Composition

The Company's by-laws limit the size of the Board to a maximum of 13 members. To assure the independence of the Board of Directors, the Company's by-laws also provide that no more than two directors may be employees of Nova Scotia Power or its predecessors. The Chair of the Board and the Chief Executive Officer of Nova Scotia Power must be separate individuals. Each Board committee is made up of directors who are not employees of Nova Scotia Power.

The Board has adopted a number of operating procedures to address issues associated with directors' performance, Board composition, and conflict of interest. These procedures are intended to enhance the ability of directors to carry out their duties and to ensure an orderly rotation of Board members without impairing Board operations.

Non-employee directors may serve on the Board for no more than ten years. Board committees are appointed annually and the composition of all committees is reviewed at least every three years. Upon reaching age 70, a director is not eligible for re-election at the next annual meeting. No person may hold the position of Chair of the Board for three consecutive years without a review by the Board.

### Board Communication

A regular flow of information from management to the Board of Directors ensures that the Board has sufficient and timely information concerning Nova Scotia Power's affairs. This information is used by the Board to assess both the direction of Nova Scotia Power's business and the performance of management. The Board of Directors receives a briefing package from management of Nova Scotia Power in advance of all meetings. Communications between meetings include information respecting any new developments which might affect Nova Scotia Power's business, in addition to specific information provided to individual directors to allow them to fulfil their duties as members of a Board committee.

The Directors are kept informed of Nova Scotia Power's operations at the meetings of the Board and its committees and through reports from and discussions with Management. Board and committee meetings are held on a regularly scheduled basis and communications between the Directors and Management occur apart from regularly scheduled Board and committee meetings in the form of oral and written briefings or specially called meetings. Management reports on Nova Scotia Power's operations and results at such meetings and responds to questions from the Directors.

The Board and its Committees, at their option, regularly meet independently of Management to discuss various issues.

### Board Functions

The Board makes all major decisions for the Company, including those set out below. Many Board functions are carried out by the three committees of the Board. The Board and its Committees are responsible for these main functions:

- approving the financial statements and the Management Discussion and Analysis in the Annual Report;
- adopting a strategic planning process and overseeing its implementation;
- identifying principal risks in the business and implementing systems to manage these risks;
- succession planning for senior management and monitoring, appointing and training senior management;

- setting performance objectives and monitoring results;
- approving the issue of securities;
- approving operating and capital budgets and specific requests for major capital expenditures;
- ensuring business risks are properly identified and managed, and approving decisions involving significant risks to Nova Scotia Power;
- establishing general corporate policies;
- the integrity of internal control and management information systems;
- ensuring proper financial reporting and financial control systems are in place including proper inspection, control and audit systems;
- overseeing communications with shareholders and other stakeholders, including reviewing the quarterly financial statements, and approving the annual financial statements, annual report and annual information form;
- approving compensation for Executive Officers and compensation policies for Nova Scotia Power; and
- monitoring the effectiveness of Nova Scotia Power's corporate governance practices and approving any necessary changes.

### Shareholder Feedback

Nova Scotia Power provides information to and responds to inquiries from shareholders. Nova Scotia Power has established toll-free lines by which shareholders, customers and others can receive information from and contact the Company. Shareholders may contact Nova Scotia Power at the Office of the Corporate Secretary or through its Investor Services group. Shareholder inquiries or suggestions that are addressed to the Board, a specific department or person, are forwarded to the intended recipient.

In addition, senior officers communicate with industry analysts each quarter to discuss Nova Scotia Power's operating results and trends.

### Board Committees

Nova Scotia Power's Board of Directors has three Committees to assist it in carrying out its duties. These Committees must consist of Directors who are not employees of Nova Scotia Power. The Board of Directors may establish an Executive Committee of the Board of Directors. The Directors have determined that, because of the relatively small size of the Board, it is not appropriate to constitute such a Committee at this time. This helps ensure that all Directors are fully briefed on issues relating to Nova Scotia Power.

### Audit Committee

The Audit Committee must consist of at least three Directors. This Committee is responsible for ensuring that appropriate internal control procedures are in place relating to the internal and external audit of Nova Scotia Power's accounts. The Audit Committee reviews investment issues and policies. It also reviews and recommends to the Board of Directors for approval, documents such as the Annual Report, the Annual Information Form, the Management Discussion and Analysis, the audited financial statements and the unaudited interim reports to shareholders. The Audit Committee meets at least quarterly with the internal and external auditors and management.

This Committee also receives reports on and reviews the financial performance of Nova Scotia Power's pension plans, including pension fund and fund manager performance, and reviews investment guidelines for the pension plans.

This Committee currently consists of the following Directors:

Mr. Marc de Logeres, Committee Chair
Ms. R. Irene d'Entremont
Mr. Thomas R. Hall
Ms. Rosemary Scanlon

### Management Resources and Compensation Committee

The Management Resources and Compensation Committee (the "MRC Committee") reviews compensation policies, benefits and other matters relating to senior management and monitors succession planning. It reviews the annual incentive plan for all Executive Officers, makes recommendations to the Board of Directors in respect of these matters and evaluates the performance of the President and Chief Executive Officer.

The MRC Committee consists of six Directors and is required to meet at least annually. The MRC Committee's recommendations are submitted to the Board of Directors for approval.

The MRC Committee currently consists of the following Directors:

Mr. Paul D. Sobey, Committee Chair
Mr. George A. Caines
Sir Graham Day
Mr. Marc de Logeres
Mr. M. Edward MacNeil
Mr. Kenneth C. Rowe

### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of three Directors. It is responsible for providing a list of nominees for election as Directors and ensuring that such nominees are, in the reasonable opinion of the Committee, individuals who have the ability to contribute and devote the necessary time to the Board of Directors.

The effectiveness of the Board and the Committees is assessed by the Nominating and Corporate Governance Committee which considers Directors' comments and then proposes modifications to improve the Board functions, Committee functions, and Nova Scotia Power's corporate governance processes.

The Nominating and Corporate Governance Committee currently consists of the following Directors:

Dr. Elizabeth Parr-Johnston, Committee Chair
Mr. Kenneth C. Rowe
Mr. Paul D. Sobey

### Corporate Governance Compliance

Corporate governance is the process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, the board of directors and management. The direction and management of the business should take into account the impact on other stakeholders such as employees, customers, suppliers and communities.

Nova Scotia Power's corporate governance practices comply with the Guidelines for Improved Corporate Governance in Canada adopted by The Toronto Stock Exchange and The Montreal Exchange.

## Corporate Information

### Board of Directors

**Derek Oland**
Chairman of the Board
President and Chief Executive Officer
Moosehead Breweries Limited
Saint John, New Brunswick

**Louis R. Comeau**
President and CEO
Nova Scotia Power Inc.
Halifax, Nova Scotia

**George A. Caines, Q.C.**
Managing Partner
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

**Sir Graham Day**
Counsel
Stewart McKelvey Stirling Scales
Hantsport, Nova Scotia

**Marc de Logeres**
Consultant
Zanett Capital Inc.
New York, New York

**R. Irene d'Entremont**
President
M.I.T. Electronics Inc.
Yarmouth, Nova Scotia

**Thomas R. Hall**
Consultant
Marble Mountain, Nova Scotia

**M. Edward MacNeil**
Director
Sydney, Nova Scotia

**Dr. Elizabeth Parr-Johnston**
President and Vice-Chancellor
Mount Saint Vincent University
Halifax, Nova Scotia

**Kenneth C. Rowe**
Chairman, President and Chief Executive Officer
IMP Group International Inc.
Halifax, Nova Scotia

**Rosemary Scanlon**
State Deputy Comptroller for the
City of New York
New York, New York

**Paul D. Sobey**
Chairman and Chief Executive Officer
Atlantic Shopping Centres Limited
New Glasgow, Nova Scotia

### Executive Officers

**Louis R. Comeau**
President and Chief Executive Officer

**Terry MacDonald**
Vice President,
Engineering and Environment

**Gary Oickle**
Vice President and Chief Financial Officer

**Robbie Shaw**
Vice President,
Public Affairs and Corporate Development

**Phil Sidebottom**
Vice President,
Power Production

**George White**
Vice President,
Customer Service and Marketing

**Rick Smith**
Secretary and General Counsel

## Investor Information

### Common Share Information

Earnings per common share for the year ended December 31, 1995 were $1.11. Four quarterly dividends of $0.195 per share were paid in 1995. A dividend reinvestment plan is available to all common shareholders resident in Canada.

### Share Trading Summary (TSE)

*(January to December 1995)*

| | |
|---|---|
| Shares outstanding | 85.6 million |
| High market price | $12.50 |
| Low market price | $10.63 |
| Closing price | $12.38 |
| Volume | 25.5 million |

### Preferred Share Information

8,000,000, 6% preferred shares were issued in October 1993 and are outstanding. A quarterly dividend of $0.375 is payable on the first day of January, April, July and October. Market value at December 31, 1995 was $25.50.

### Shareholder Inquiries

Shareholder inquiries may be directed to Investor Services by calling:
(902) 428-6060 or toll free 1-800-358-1995
*or by writing to:*
Nova Scotia Power Inc.
P.O. Box 910
Halifax, Nova Scotia
Canada
B3J 2W5

### Share Transfer Agent and Registrar

Montreal Trust
1465 Brenton Street, 5th Floor
P.O. Box 36012
Halifax, Nova Scotia
Canada
B3J 3S9

### Market Trading

Nova Scotia Power Inc. shares are traded on The Toronto Stock Exchange and The Montreal Exchange. The trading symbol for common shares is NSI, and the symbol for preferred shares is NSI1A.

### Dividend

Common share dividends are payable on or about the middle of the months of February, May, August and November. A dividend of $0.20 per share has been declared payable February 15, 1996.

### Direct Deposit Service

Shareholders may have dividends deposited directly into accounts held at financial institutions which are members of the Canadian Payments Association. To arrange direct deposit service, please write to Investor Services at the address noted to the left.

### Annual Meeting

Shareholders are invited to attend the Annual Meeting at 11 a.m. on Wednesday, April 3, 1996, at the World Trade and Convention Centre, Halifax, Nova Scotia.

# Notes

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